ILLINOIS TOOL WORKS INC
Form S-4/A
August 10, 2009

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As filed with the Securities and Exchange Commission on August 10, 2009
Registration No. 333-159979

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-4
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ILLINOIS TOOL WORKS INC.
(Exact name of Registrant as specified in its charter)

Delaware	**3560**	**36-1258310**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

3600 West Lake Avenue
Glenview, IL 60026-1215
(847) 724-7500
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

James H. Wooten, Jr.
Senior Vice President, General Counsel & Secretary
Illinois Tool Works Inc.
3600 West Lake Avenue
Glenview, IL 60026-1215
(847) 724-7500
(Name, Address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

Kimberly K. Rubel
Drinker Biddle & Reath LLP
191 North Wacker Drive, Suite 3700
Chicago, IL 60606-1698

(312) 569-1000

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable following the effectiveness of this registration statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer:	þ	Accelerated filer:	o
Non-accelerated filer:	o	Smaller reporting company:	o
(Do not check if a smaller reporting company)			

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:
Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) o
Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 10, 2009

PROSPECTUS

ILLINOIS TOOL WORKS INC.

EXCHANGE OFFER FOR
$800,000,000 5.15% Notes due 2014
$700,000,000 6.25% Notes due 2019

We hereby offer, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal (which together constitute the exchange offer), to exchange up to $800,000,000 aggregate principal amount of our 5.15% Notes due 2014 and up to $700,000,000 aggregate principal amount of our 6.25% Notes due 2019 that have been registered under the Securities Act of 1933, as amended (the Securities Act), which together we refer to as the exchange notes, for a like principal amount of our outstanding 5.15% Notes due 2014 and 6.25% Notes due 2019, which together we refer to as the original notes. The terms of the exchange offer are summarized below and are more fully described in this prospectus.

The terms of the exchange notes are substantially identical to the terms of the original notes in all material respects, except that the exchange notes are registered under the Securities Act and the transfer restrictions, registration rights and additional interest provisions applicable to the original notes do not apply to the exchange notes.

We will accept for exchange any and all original notes validly tendered and not properly withdrawn prior to 5:00 p.m., New York City time, on , 2009, unless extended.

You may withdraw tenders of original notes at any time prior to the expiration of the exchange offer.

We will not receive any proceeds from the exchange offer.

The exchange of original notes for exchange notes generally will not be a taxable event for U.S. federal income tax purposes.

Each broker-dealer that receives exchange notes for its own account under the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of those notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer for resales of exchange notes received in exchange for original notes that had been acquired as a result of market-making or other trading activities. We have agreed that we will make available as promptly as practicable a copy of this prospectus, as it may be amended or supplemented, to any holder or any broker-dealer for use in connection with any such resale, together with an appropriate letter of transmittal and related documents. See Plan of Distribution.

The notes will not be listed on any securities exchange, quotation system or PORTAL.

See Risk Factors beginning on page 10 to read about important factors you should consider before tendering your original notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2009.

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EX-12.1
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No information in this prospectus constitutes legal, business or tax advice, and you should not consider it as such. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding the exchange offer.

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FORWARD-LOOKING STATEMENTS

This prospectus contains or incorporates by reference certain statements and information that are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements may be identified by the use of words such as believe, expect, plans, strategy, prospects, estimate, project, target, anticipate, guidance, and other similar wo without limitation, statements regarding the timing of disposal of businesses held for sale, the impact of bankruptcies of particular customers in the transportation business, availability of raw materials and energy, the expiration of any one of our patents, the cost of compliance with environmental regulations, the adequacy of internally generated funds and credit facilities, the meeting of dividend payout objectives, the ability to fund debt service obligations, payments under guarantees, our portion of future benefit payments related to pension and postretirement benefits, the availability of additional financing, the outcome of outstanding legal proceedings, the impact of adopting new accounting pronouncements and the estimated amount of unrecognized tax benefits. These statements are subject to certain risks, uncertainties, and other factors, which could cause actual results to differ materially from those anticipated. Important risks that may influence future results include (1) a further downturn in the construction, general industrial, automotive or food institutional/restaurant and service markets, (2) changes or deterioration in international and domestic business and economic conditions, particularly in North America, Europe, Asia or Australia, (3) the unfavorable impact of foreign currency fluctuations and costs of raw materials, (4) decreases in credit availability, (5) an interruption in, or reduction in, introducing new products into our product lines, (6) an unfavorable environment for making acquisitions, domestic and international, including adverse accounting or regulatory requirements and market values of candidates, and (7) unfavorable tax law changes and tax authority rulings. The risks covered here are not all inclusive and given these and other possible risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Forward-looking statements are inherently subject to risks and uncertainties, some of which we cannot predict or quantify. For a discussion of significant risks applicable to us, see Risk Factors below. Should one or more of these risks or uncertainties materialize, or should our underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated.

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INCORPORATION OF DOCUMENTS BY REFERENCE

We are incorporating information contained in the reports we file with the Securities and Exchange Commission (the SEC) by reference, which means that we are disclosing important information to you in this document by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act (other than any portions of such filings that are furnished rather than filed under applicable SEC rules), including any filings (i) after the date of the filing of the registration statement containing this prospectus and prior to the effectiveness of the registration statement, and (ii) after the date of this prospectus, until we have exchanged all of the notes to which this prospectus relates or the offering is otherwise terminated:

Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (except for Part II, Items 6, 7 and 8, which have been updated by our Current Report on Form 8-K filed August 7, 2009);

Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2009 (except for Part I, Items 1 and 2, which have been updated by our Current Report on Form 8-K filed August 7, 2009) and June 30, 2009;

Current Reports on Form 8-K filed January 7, 2009, February 5, 2009, March 27, 2009, May 12, 2009, June 19, 2009 and August 7, 2009; and

The portions of the Proxy Statement for our 2009 Annual Meeting filed March 25, 2009 that are incorporated by reference into our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC s web site at www.sec.gov. You may also read and copy any document we file at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our common stock is listed on the New York Stock Exchange under the symbol ITW. The reports, proxy statements and other information that we file with the SEC are also available at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. You may also access these filings free of charge through our Internet website, www.itw.com. Other than the documents referred to above under Incorporation of Documents by Reference, information on our Internet website is not part of this prospectus, and you should not consider it to be a part of this prospectus.

This prospectus contains summaries of the material terms of certain documents and refers you to certain documents that we have filed with the SEC. Copies of these documents, except for certain exhibits and schedules, will be made available to you without charge upon written or oral request to:

James H. Wooten, Jr., Secretary
Illinois Tool Works Inc.
3600 West Lake Avenue
Glenview, IL 60026
(847) 724-7500

To obtain timely delivery of such materials, you must request information from us no later than five business days prior to the expiration of the exchange offer, which is , 2009.

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SUMMARY

This summary provides an overview of selected information about Illinois Tool Works Inc. and the offering and does not contain all the information you should consider in making a decision to purchase the exchange notes. This summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements, including the notes thereto, appearing elsewhere in, or incorporated by reference in, this prospectus. You should read the entire prospectus carefully before making an investment decision, including the discussion of significant risks applicable to us and to your participation in the exchange offer presented under Risk Factors below. Unless the context otherwise indicates, all references to we, us or our in this prospectus refer to Illinois Tool Works Inc.

Illinois Tool Works Inc.

We are a multinational manufacturer of a diversified range of industrial products and equipment with approximately 895 operations in 54 countries. These 895 businesses are internally reported as 63 operating segments to senior management. Our 63 operating segments have been aggregated into the following eight external reportable segments:

Industrial Packaging: Businesses in this segment produce steel, plastic and paper products used for bundling, shipping and protecting goods in transit. In the Industrial Packaging segment, products include:

- steel and plastic strapping and related tools and equipment;
- plastic stretch film and related equipment;
- paper and plastic products that protect goods in transit; and
- metal jacketing and other insulation products.

Power Systems & Electronics: Businesses in this segment produce equipment and consumables associated with specialty power conversion, metallurgy and electronics. In the Power Systems & Electronics segment, products include:

- arc welding equipment;
- metal arc welding consumables and related accessories;
- metal solder materials for PC board fabrication;
- equipment and services for microelectronics assembly;
- electronic components and component packaging; and
- airport ground support equipment.

Transportation: Businesses in this segment produce components, fasteners, fluids and polymers, as well as truck remanufacturing and related parts and service. In the Transportation segment, products include:

- metal and plastic components, fasteners and assemblies for automobiles and light trucks;

fluids and polymers for auto aftermarket maintenance and appearance;

fillers and putties for auto body repair; and

polyester coatings and patch and repair products for the marine industry.

Food Equipment: Businesses in this segment produce commercial food equipment and related service. In the Food Equipment segment, products include:

- warewashing equipment;
- cooking equipment, including ovens, ranges and broilers;
- refrigeration equipment, including refrigerators, freezers and prep tables;
- food processing equipment, including slicers, mixers and scales; and
- kitchen exhaust, ventilation and pollution control systems.

Construction Products: Businesses in this segment produce tools, fasteners and other products for construction applications. In the Construction Products segment, products include:

- fasteners and related fastening tools for wood applications;
- anchors, fasteners and related tools for concrete applications;
- metal plate truss components and related equipment and software; and
- packaged hardware, fasteners, anchors and other products for retail.

Polymers & Fluids: Businesses in this segment produce adhesives, sealants, lubrication and cutting fluid, and hygiene products. In the Polymers & Fluids segment, products include:

- adhesives for industrial, construction and consumer purposes;
- chemical fluids that clean or add lubrication to machines;
- epoxy and resin-based coating products for industrial applications;
- hand wipes and cleaners for industrial applications; and
- pressure-sensitive adhesives and components for telecommunications, electronics, medical and transportation applications.

Decorative Surfaces: Businesses in this segment produce decorative surfacing materials for countertops, flooring, furniture and other applications. In the Decorative Surfaces segment, products include:

- decorative high-pressure laminate for countertops;
- solid surface materials for countertops;
- high-pressure laminate flooring;
- laminate for furniture applications; and

high-pressure laminate worktops.

All Other: This segment includes all other operating segments. In the All Other segment, products include:

equipment and related software for testing and measuring of materials and structures;

plastic reclosable packaging for consumer food storage;

plastic reclosable bags for storage of clothes and home goods;

plastic consumables that multi-pack cans and bottles and related equipment;

plastic fasteners and components for appliances, furniture and industrial uses;

metal fasteners and components for appliances and industrial applications;

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swabs, wipes and mats for clean room usage;

foil, film and related equipment used to decorate consumer products;

product coding and marking equipment and related consumables;

paint spray and adhesive dispensing equipment; and

static and contamination control equipment.

80/20 Business Process

A key element of our business strategy is our continuous 80/20 business process for both existing businesses and new acquisitions. The basic concept of this 80/20 business process is to focus on what is most important (the 20% of the items which account for 80% of the value) and to spend less time and resources on the less important (the 80% of the items which account for 20% of the value). Our operations use this 80/20 business process to simplify and focus on the key parts of their business, and as a result, reduce complexity that often disguises what is truly important. Our 895 operations utilize the 80/20 process in various aspects of their business. Common applications of the 80/20 business process include:

Simplifying product lines by reducing the number of products offered by combining the features of similar products, outsourcing products or, as a last resort, eliminating low-value products.

Segmenting the customer base by focusing on the 80/20 customers separately and finding alternative ways to serve the 20/80 customers.

Simplifying the supplier base by partnering with 80/20 suppliers and reducing the number of 20/80 suppliers.

Designing business processes, systems and measurements around the 80/20 activities.

The result of the application of this 80/20 business process is that we have over time improved our long-term operating and financial performance. These 80/20 efforts can result in restructuring projects that reduce costs and improve margins. Corporate management works closely with those businesses that have operating results below expectations to help those businesses better apply this 80/20 business process and improve their results.

We were founded in 1912 and incorporated in 1915. Our principal offices are located at 3600 West Lake Avenue, Glenview, Illinois 60026. Our telephone number is (847) 724-7500. We maintain a website at www.itw.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this prospectus.

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SUMMARY OF THE EXCHANGE OFFER

On March 26, 2009, we completed the private placement of $800,000,000 aggregate principal amount of 5.15% Notes due 2014 and $700,000,000 aggregate principal amount of 6.25% Notes due 2019. As part of that offering, we entered into a registration rights agreement with the initial purchasers of the original notes, dated March 26, 2009, in which we agreed, among other things, to deliver this prospectus to you and to use our reasonable best efforts to complete an exchange offer for the original notes. Below is a summary of the exchange offer.

Securities offered	Up to $800,000,000 aggregate principal amount of new 5.15% notes due 2014 and up to $700,000,000 aggregate principal amount of new 6.25% notes due 2019 that have been registered under the Securities Act. The form and terms of these exchange notes are identical in all material respects to those of the original notes except that the exchange notes are registered under the Securities Act, and the transfer restrictions, registration rights and additional interest provisions applicable to the original notes do not apply to the exchange notes.
The exchange offer	We are offering to exchange up to $800,000,000 principal amount of our 5.15% Notes due 2014 and up to $700,000,000 principal amount of our 6.25% Notes due 2019 that have been registered under the Securities Act for a like principal amount of the original notes outstanding. You may tender original notes in minimum denominations of $2,000 and any integral multiple of $1,000 in excess thereof. We will issue exchange notes as soon as practicable after the expiration of the exchange offer. In order to be exchanged, an original note must be properly tendered and accepted. All original notes that are validly tendered and not properly withdrawn will be exchanged. As of the date of this prospectus, there are outstanding original notes consisting of $800,000,000 aggregate principal amount of 5.15% Notes due 2014 and $700,000,000 aggregate principal amount of 6.25% Notes due 2019. The $800,000,000 aggregate principal amount of our original 5.15% Notes due 2014 and $700,000,000 aggregate principal amount of our original 6.25% Notes due 2019 were offered under an Indenture dated as of November 1, 1986, as supplemented by a First Supplemental Indenture dated as of May 1, 1990 and an officers certificate dated as of March 26, 2009.
Expiration date; Tenders	The exchange offer will expire at 5:00 p.m., New York City time, on , 2009, unless we extend the exchange offer in our sole and absolute discretion. By tendering your original notes, you represent that: any exchange notes you receive in the exchange offer are being acquired by you in the ordinary course of your business; at the time of commencement of the exchange offer, you have no arrangement or understanding with any person to participate in, and are not engaged in and do not intend to

	engage in, the distribution (within the meaning of the Securities Act) of the exchange notes in violation of the provisions of the Securities Act; you are not our affiliate (within the meaning of Rule 405 under the Securities Act); and if you are a broker-dealer that will receive exchange notes for your own account in exchange for original notes that were acquired as a result of market-making or other trading activities, then you will deliver a prospectus (or, to the extent permitted by law, make available a prospectus to purchasers) in connection with any resale of exchange notes. For further information regarding resales of the exchange notes by participating broker-dealers, see the discussion under the caption Plan of Distribution.
Accrued interest on the exchange notes and original notes	The exchange notes will bear interest from March 26, 2009. If your original notes are accepted for exchange, you will receive interest on the exchange notes and not on the original notes. Any original notes not tendered will remain outstanding and continue to accrue interest according to their terms.
Conditions to the exchange offer	The exchange offer is not subject to any conditions other than that it not violate any applicable law or applicable interpretations of the SEC staff. We may assert or waive these conditions in our sole discretion. If we materially change the terms of the exchange offer, we will resolicit tenders of the original notes. See The Exchange Offer Conditions to the Exchange Offer for more information regarding conditions to the exchange offer.
Procedures for tendering original notes	Except as described in the section titled The Exchange Offer Guaranteed Delivery Procedures, a tendering holder must, on or prior to the expiration date: transmit a properly completed and duly executed letter of transmittal, including all other documents required by the letter of transmittal, to the exchange agent at the address listed in this prospectus; or if original notes are tendered in accordance with the book-entry procedures described in this prospectus, the tendering holder must transmit an agent s message to the exchange agent at the address listed in this prospectus. See The Exchange Offer Procedures for Tendering.
Special procedures for Beneficial holders	If you are a beneficial holder of original notes that are registered in the name of your broker, dealer, commercial bank, trust company or other nominee, and you wish to tender in the exchange offer, you should promptly contact the person in whose name your original notes are registered and instruct that

	person to tender on your behalf. See The Exchange Offer Procedures for Tendering.
Guaranteed delivery procedures	If you wish to tender your original notes and you cannot deliver your original notes, the letter of transmittal or any other required documents to the exchange agent before the expiration date, you may tender your original notes by following the guaranteed delivery procedures under the heading The Exchange Offer Guaranteed Delivery Procedures.
Withdrawal rights	Tenders may be withdrawn at any time before 5:00 p.m., New York City time, on the expiration date.
Acceptance of original notes and delivery of exchange notes	Subject to the conditions stated in the section The Exchange Offer Conditions to the Exchange Offer, we will accept for exchange any and all original notes which are properly tendered in the exchange offer and not withdrawn before 5:00 p.m., New York City time, on the expiration date. The exchange notes will be delivered as soon as practicable after the expiration date. See The Exchange Offer Terms of the Exchange Offer.
Material U.S. federal tax consequences	Your exchange of original notes for exchange notes pursuant to the exchange offer generally will not be a taxable event for U.S. federal income tax purposes.
Exchange agent	The Bank of New York Mellon Trust Company, N.A., is serving as exchange agent in connection with the exchange offer. The address and telephone number of the exchange agent are listed under the heading The Exchange Offer Exchange Agent.
Use of proceeds	We will not receive any proceeds from the issuance of exchange notes in the exchange offer. We have agreed to pay all expenses incidental to the exchange offer other than commissions and concessions of any broker or dealer and certain transfer taxes and will indemnify holders of the notes, including any broker-dealers, against certain liabilities, including liabilities under the Securities Act.
Resales	Based on interpretations by the staff of the SEC as detailed in a series of no-action letters issued to third parties, we believe that the exchange notes issued in the exchange offer may be offered for resale, resold or otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act as long as: you are acquiring the exchange notes in the ordinary course of your business; you are not participating, do not intend to participate and have no arrangement or understanding with any person to participate, in a distribution of the exchange notes; and

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	you are neither an affiliate of ours nor a broker-dealer tendering notes acquired directly from us for your own account.
	If you are an affiliate of ours and are engaged in or intend to engage in or have any arrangement or understanding with any person to participate in the distribution of the exchange notes:
	you cannot rely on the applicable interpretations of the staff of the SEC; and
	you must comply with the registration requirements of the Securities Act in connection with any resale transaction.
	Each broker or dealer that receives exchange notes for its own account in exchange for original notes that were acquired as a result of market-making or other trading activities must acknowledge that it will comply with the registration and prospectus delivery requirements of the Securities Act in connection with any offer to resell or other transfer of the exchange notes issued in the exchange offer, including the delivery of a prospectus that contains information with respect to any selling note holder required by the Securities Act in connection with any resale of the exchange notes.
	Furthermore, any broker-dealer that acquired any original notes directly from us:
	may not rely on the applicable interpretation of the staff of the SEC s position contained in Exxon Capital Holdings Corp., SEC no-action letter (April 13, 1988), Morgan Stanley & Co. Inc., SEC no-action letter (June 5, 1991), and Shearman & Sterling, SEC no-action letter (July 2, 1993); and
	must also be named as a selling note holder in connection with the registration and prospectus delivery requirements of the Securities Act relating to any resale transaction.
	As a condition to participation in the exchange offer, each holder will be required to represent that it is not our affiliate or a broker-dealer that acquired the original notes directly from us.
Consequences of not exchanging original notes	If you do not exchange your original notes in the exchange offer, you will continue to be subject to the restrictions on transfer described in the legend on your original notes. In general, you may offer or sell your original notes only:
	if they are registered under the Securities Act and applicable state securities laws;
	if they are offered or sold under an exemption from registration under the Securities Act and applicable state securities laws; or

	if they are offered or sold in a transaction not subject to the Securities Act and applicable state securities laws.
	Although your original notes will continue to accrue interest, they will retain no rights under the registration rights agreement.
	We currently do not intend to register the original notes under the Securities Act. Under some circumstances, certain participants in the exchange offer who may not freely sell exchange notes received in the exchange offer may require us to file, and to cause to become effective, a shelf registration statement covering resales of the original notes by these holders. For more information regarding the consequences of not tendering your original notes and our obligations to file a shelf registration statement, see The Exchange Offer Consequences of Exchanging or Failing to Exchange the Original Notes and The Exchange Offer Registration Rights Agreement.
Risk factors	See Risk Factors beginning on page 10 of this prospectus for a discussion of factors you should consider carefully before deciding to participate in the exchange offer.

SUMMARY OF THE TERMS OF THE EXCHANGE NOTES

The following is a summary of the terms of the exchange notes. The form and terms of the exchange notes are identical in all material respects to those of the original notes except that the exchange notes are registered under the Securities Act, and the transfer restrictions, registration rights and additional interest provisions applicable to the original notes do not apply to the exchange notes. The exchange notes will evidence the same debt as the original notes and will be governed by the same indenture. When we refer to the terms note or notes in this prospectus, we are referring to the original notes and the exchange notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. For a more detailed description of the terms and conditions of the exchange notes, see the section of this prospectus entitled Description of Exchange Notes.

Issuer	Illinois Tool Works Inc., a Delaware corporation.
Securities Offered	$800,000,000 aggregate principal amount of 5.15% Notes due 2014. $700,000,000 aggregate principal amount of 6.25% Notes due 2019.
Maturity	The 2014 notes will mature on April 1, 2014. The 2019 notes will mature on April 1, 2019.
Interest	Interest will accrue on the exchange notes from March 26, 2009 and will be payable semiannually in arrears on April 1 and October 1 of each year, beginning on October 1, 2009.
Ranking	The notes will be our unsecured obligations and will rank on parity with all of our other unsecured and unsubordinated indebtedness.
Optional Redemption	We may redeem some or all of the notes, in whole or in part, at any time, from time to time, at the redemption prices set forth in the indenture, as summarized in this prospectus under the caption Description of Exchange Notes Optional Redemption.
Certain Covenants	The indenture for the notes limits our ability to, among other things, engage in mergers, consolidations or similar transactions, create liens and engage in sale and leaseback transactions. See Description of Exchange Notes Covenants.

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RISK FACTORS

Before making any investment decision, including whether to participate in the exchange offer, you should carefully consider the risks described below and other information in this prospectus. Based on the information currently known to us, we believe that the following information identifies all known material risk factors relating to our business and the exchange notes and affecting the exchange offer. Risks and uncertainties are not limited to those set forth in the risk factors described below, however. Additional risks and uncertainties not presently known to us or that we currently believe to be less significant than the following risk factors may also impair our business operations. Our business, financial condition or results of operations could be materially adversely affected by any of these risks.

This prospectus also contains or incorporates by reference forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in those forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this prospectus. See Forward-Looking Statements.

Risks Relating to Our Business

For a discussion of risks related to our business and operations, please see Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for our fiscal year ended December 31, 2008, as updated by our Current Report on Form 8-K filed August 7, 2009, and Management s Discussion and Analysis in our Quarterly Report on Form 10-Q for our fiscal quarter ended June 30, 2009, which are incorporated by reference in this prospectus, as well as similar disclosures contained in our filings with the SEC subsequent to the date of this prospectus.

Risks Relating to the Exchange Notes

There is no current public market for the exchange notes, and a market may not develop.

The exchange notes are a new issue of securities for which there is currently no public trading market. We cannot guarantee:

- the liquidity of any market that may develop for the exchange notes;
- your ability to sell the exchange notes; or
- the price at which you might be able to sell the exchange notes.

Liquidity of any market for the exchange notes and future trading prices of the exchange notes will depend on many factors, including:

- prevailing interest rates;
- our operating results; and
- the market for similar securities.

The initial purchasers have advised us that they currently intend to make a market in the exchange notes, but they are not obligated to do so and may cease any market-making at any time without notice. We do not intend to apply for listing of any of the exchange notes on any securities exchange or for inclusion of any of the exchange notes in any automated quotation system. As a result, it may be difficult for you to find a buyer for the exchange notes at the time you want to sell them and, even if you find a buyer, you might not receive the price you want.

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Risks Relating to the Exchange Offer

You may have difficulty selling the original notes that you do not exchange.

If you do not exchange your original notes for exchange notes pursuant to the exchange offer, the original notes you hold will continue to be subject to the existing transfer restrictions. The original notes may not be offered, sold or otherwise transferred, except in compliance with the registration requirements of the Securities Act, pursuant to an exemption from registration under the Securities Act or in a transaction not subject to the registration requirements of the Securities Act, and in compliance with applicable state securities laws. We do not anticipate that we will register the original notes under the Securities Act. After the exchange offer is consummated, the trading market for the remaining untendered original notes may be small and inactive. Consequently, you may find it difficult to sell any original notes you continue to hold because there will be fewer original notes of such series outstanding.

Some noteholders may be required to comply with the registration and prospectus delivery requirements of the Securities Act.

If you exchange your original notes in the exchange offer for the purpose of participating in a distribution of the exchange notes, you may be deemed to have received restricted securities and, if so, you will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

In addition, a broker-dealer that purchased original notes for its own account as part of market-making or trading activities must deliver a prospectus when it sells the exchange notes it receives in the exchange offer. Our obligation to make this prospectus available to broker-dealers is limited. We cannot guarantee that a proper prospectus will be available to broker-dealers wishing to resell their exchange notes.

Late deliveries of original notes or any other failure to comply with the exchange offer procedures could prevent a holder from exchanging its original notes.

Noteholders are responsible for complying with all exchange offer procedures. The issuance of exchange notes in exchange for original notes will only occur upon proper completion of the procedures described in this prospectus under The Exchange Offer. Therefore, holders of original notes who wish to exchange them for exchange notes should allow sufficient time for timely completion of the exchange procedure. Neither we nor the exchange agent are obligated to extend the exchange offer period or notify you of any failure to follow the proper procedure.

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RATIO OF EARNINGS TO FIXED CHARGES

Our consolidated ratio of earnings to fixed charges for each of the last five fiscal years and for the six months ended June 30, 2009 is set forth below. You should read this table in conjunction with the consolidated financial statements and notes to financial statements incorporated by reference in this prospectus. See Incorporation of Documents by Reference.

For the purpose of computing these ratios, earnings consists of income from continuing operations before income taxes, noncontrolling interest expense and equity method earnings, plus fixed charges and dividends of unconsolidated affiliates, less preferred dividends of consolidated affiliates and noncontrolling interest expense. Fixed charges consists of interest expense (which includes amortization of debt expenses), capitalized interest and an estimate of the interest within rental expense. The ratio was calculated by dividing the sum of the fixed charges into the sum of earnings. Interest related to income tax matters is included in income taxes in the consolidated statement of income and is excluded from the computation of fixed charges.

	Six Months Ended June 30, 2009		Fiscal Year Ended December 31,					
	Pro Forma(1)	Actual	Pro Forma 2008(1)	2008	2007	2006	2005	2004
Ratio of Earnings to Fixed Charges	3.7x	4.4x	9.9x	13.1x	19.6x	21.6x	18.6x	20.0x

(1) Sets forth our ratio of earnings to fixed charges on a pro forma basis to reflect the issuance of the original notes, including the receipt of net proceeds from the sale of the original notes after deducting the offering discount and fees and expenses, and repayment of outstanding commercial paper. Reflects the issuance of $1,500.0 million of original notes and repayment of commercial paper as of the beginning of the period indicated.

THE EXCHANGE OFFER

Purpose of the Exchange Offer

When we completed the sale of the original notes on March 26, 2009, we entered into a registration rights agreement with the initial purchasers of the original notes. Under the registration rights agreement, we agreed to file a registration statement with the SEC relating to the exchange offer within 90 days of the issue date of the original notes. We also agreed to use our reasonable best efforts to cause the registration statement to become effective with the SEC within 150 days after the issue date of the original notes and to consummate this exchange offer within 180 days after the issue date of the original notes. The registration rights agreement provides that we will be required to pay additional interest to the holders of the original notes if we fail to comply with such filing, effectiveness and offer consummation requirements. See Registration Rights Agreement below for more information on the additional interest we will owe if we do not complete the exchange offer within a specified timeline.

The exchange offer is not being made to holders of original notes in any jurisdiction where the exchange would not comply with the securities or blue sky laws of such jurisdiction. A copy of the registration rights agreement has been filed as an exhibit to the Current Report on Form 8-K we filed with the SEC on March 27, 2009, and is available from us upon request. See Where You Can Find More Information.

Terms of the Exchange Offer

Upon the terms and conditions described in this prospectus and in the accompanying letter of transmittal, which together constitute the exchange offer, we will accept for exchange original notes that are properly tendered on or before the expiration date and not withdrawn as permitted below. As used in this prospectus, the term expiration date means 5:00 p.m., New York City time, on   , 2009. However, if we, in our sole discretion, have extended the period of time for which the exchange offer is open, the term expiration date means the latest time and date to which we extend the exchange offer.

As of the date of this prospectus, $800,000,000 aggregate principal amount of original 5.15% notes due 2014 and $700,000,000 aggregate principal amount of original 6.25% notes due 2019 are outstanding. The original notes were offered under an Indenture, dated as of November 1, 1986, as supplemented by a First Supplemental Indenture dated as of May 1, 1990, between us and The Bank of New York Mellon Trust Company, N.A., as successor trustee. This prospectus, together with the letter of transmittal, is first being sent on or about   , 2009, to all holders of original notes known to us. Our obligation to accept original notes for exchange in the exchange offer is subject to the conditions described below under Conditions to the Exchange Offer. We reserve the right to extend the period of time during which the exchange offer is open. In the event of any such extension, we would delay acceptance for exchange of any original notes by giving oral or written notice of the extension to the holders of original notes as described below. During any extension period, all original notes previously tendered will remain subject to the exchange offer and may be accepted for exchange by us. Any original notes not accepted for exchange will be returned to the tendering holder after the expiration or termination of the exchange offer.

Original notes tendered in the exchange offer must be in minimum denominations of $2,000 and any integral multiple of $1,000 in excess thereof.

We reserve the right to amend or terminate the exchange offer, and not to accept for exchange any original notes not previously accepted for exchange, upon the occurrence of any of the conditions of the exchange offer specified below under Conditions to the Exchange Offer. We will give oral or written notice of any extension, amendment,

non-acceptance or termination to the

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holders of the original notes as promptly as practicable. Such notice, in the case of any extension, will be issued by means of a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

Our acceptance of the tender of original notes by a tendering holder will form a binding agreement upon the terms and subject to the conditions provided in this prospectus and the accompanying letter of transmittal.

Procedures for Tendering

Except as described below, a tendering holder must, on or prior to the expiration date:

- transmit a properly completed and duly executed letter of transmittal, including all other documents required by the letter of transmittal, to The Bank of New York Mellon Trust Company, N.A., as the exchange agent, at the address listed below under the heading Exchange Agent; or;

- if original notes are tendered in accordance with the book-entry procedures listed below, the tendering holder must transmit an agent s message to the exchange agent at the address listed below under the heading Exchange Agent.

In addition:

- the exchange agent must receive, on or before the expiration date, certificates for the original notes, if any;

- the exchange agent must receive a timely confirmation of book-entry transfer of the original notes into the exchange agent s account at The Depository Trust Company, or DTC, the book-entry transfer facility, along with the letter of transmittal or an agent s message; or

- the holder must comply with the guaranteed delivery procedures described below.

The term agent s message means a message, transmitted to DTC and received by the exchange agent and forming a part of a book-entry transfer, that states that DTC has received an express acknowledgment that the tendering holder agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against such holder.

The method of delivery of original notes, letters of transmittal and all other required documents is at your election and risk. If the delivery is by mail, we recommend that you use registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. You should not send letters of transmittal or original notes to us.

If you are a beneficial owner whose original notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, and wish to tender, you should promptly instruct the registered holder to tender on your behalf. Any registered holder that is a participant in DTC s book-entry transfer facility system may make book-entry delivery of the original notes by causing DTC to transfer the original notes into the exchange agent s account.

Signatures on a letter of transmittal or a notice of withdrawal must be guaranteed unless the original notes surrendered for exchange are tendered:

by a registered holder of the original notes who has not completed the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal; or

for the account of an eligible institution.

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If signatures on a letter of transmittal or a notice of withdrawal are required to be guaranteed, the guarantees must be by an eligible institution. An eligible institution is a financial institution, including most banks, savings and loan associations and brokerage houses, that is a participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or the Stock Exchanges Medallion Program.

We will determine in our sole discretion all questions as to the validity, form and eligibility of original notes tendered for exchange. This discretion extends to the determination of all questions concerning the timing of receipts and acceptance of tenders. These determinations will be final and binding.

We reserve the right to reject any original note not properly tendered or any original note our acceptance of which would, in our judgment or our counsel s judgment, be unlawful. We also reserve the right to waive any conditions of the exchange offer as applicable to all original notes prior to the expiration date. We also reserve the right to waive any defects or irregularities or conditions of the exchange offer as to any particular original note prior to the expiration date. Our interpretation of the terms and conditions of the exchange offer as to any particular original note either before or after the expiration date, including the letter of transmittal and the instructions to the letter of transmittal, shall be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of original notes must be cured within a reasonable period of time. Neither we, the exchange agent nor any other person will be under any duty to tendering holders to give notification of any defect or irregularity in any tender of original notes. Nor will we, the exchange agent or any other person incur any liability for failing to give notification of any defect or irregularity.

If the letter of transmittal is signed by a person other than the registered holder of original notes, the letter of transmittal must be accompanied by a written instrument of transfer or exchange in satisfactory form duly executed by the registered holder with the signature guaranteed by an eligible institution. The original notes must be endorsed or accompanied by appropriate powers of attorney. In either case, the original notes must be signed exactly as the name of any registered holder appears on the original notes.

If the letter of transmittal or any original notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, these persons should so indicate when signing. Unless waived by us, proper evidence satisfactory to us of their authority to so act must be submitted.

By tendering, each holder will represent to us that, among other things:

- any exchange notes the holder receives in the exchange offer are being acquired in the ordinary course of the holder s business;
- the holder is not our affiliate (within the meaning of Rule 405 under the Securities Act); and
- the holder does not have any arrangement or understanding with any person to participate in the distribution (within the meaning of the Securities Act) of the exchange notes.

Any purchaser of original notes who is either our affiliate (within the meaning of the Securities Act) who intends to participate in the exchange offer for the purpose of distributing the exchange notes or a broker-dealer (within the meaning of the Securities Act) that acquired original notes in a transaction other than as part of its trading or market-making activities and who has arranged or has an understanding with any person to participate in the distribution of the exchange notes: (1) will not be able to rely on the interpretation by the staff of the SEC set forth in the

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applicable no-action letters; (2) will not be able to tender its original notes in the exchange offer; and (3) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the notes unless such sale or transfer is made pursuant to an exemption from such requirements.

Each broker-dealer that receives exchange notes for its own account in exchange for original notes, where the original notes were acquired by it as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus that meets the requirements of the Securities Act in connection with any resale of the exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. However, a broker-dealer may be a statutory underwriter. See Plan of Distribution.

Acceptance of Original Notes for Exchange; Delivery of Exchange Notes

Upon satisfaction or waiver of all of the conditions to the exchange offer, we will accept, promptly after the expiration date, all original notes properly tendered, unless we terminate the exchange offer because of the non-satisfaction of conditions. We will issue the exchange notes as soon as practicable after acceptance of the original notes. See Conditions to the Exchange Offer below. For purposes of the exchange offer, we will be deemed to have accepted properly tendered original notes for exchange when, as and if we have given oral or written notice to the exchange agent, with prompt written confirmation of any oral notice.

For each original note accepted for exchange, the holder of the original note will receive an exchange note having a principal amount equal to that of the surrendered original note. The exchange notes will bear interest from the most recent date to which interest has been paid on the original notes or, if no interest has been paid, from March 26, 2009, the date of delivery of the original notes. The first interest payment date is October 1, 2009. Accordingly, registered holders of exchange notes on the relevant record date for the first interest payment date following the completion of the exchange offer will receive interest accruing from March 26, 2009. Original notes accepted for exchange will cease to accrue interest from and after the date of completion of the exchange offer. Holders of original notes whose original notes are accepted for exchange will not receive any payment for accrued interest on the original notes otherwise payable on any interest payment date, the record date for which occurs on or after completion of the exchange offer and will be deemed to have waived their rights to receive the accrued interest on the original notes.

In all cases, issuance of exchange notes for original notes will be made only after timely receipt by the exchange agent of:

- certificates for the original notes, or a timely book-entry confirmation of the original notes into the exchange agent s account at the book-entry transfer facility;
- a properly completed and duly executed letter of transmittal; and
- all other required documents.

Unaccepted or non-exchanged original notes will be returned without expense to the tendering holder of the original notes. In the case of original notes tendered by book-entry transfer in accordance with the book-entry procedures described below, the non-exchanged original notes will be returned or recredited promptly.

Book-Entry Transfer

The exchange agent will make a request to establish an account for the original notes at DTC for purposes of the exchange offer within two business days after the date of this prospectus. Any financial institution that is a participant

in DTC s systems must make book-entry delivery of

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original notes by causing DTC to transfer those original notes into the exchange agent s account at DTC in accordance with DTC s procedure for transfer. This participant should transmit its acceptance to DTC on or prior to the expiration date or comply with the guaranteed delivery procedures described below. DTC will verify this acceptance, execute a book-entry transfer of the tendered original notes into the exchange agent s account at DTC and then send to the exchange agent confirmation of this book-entry transfer. The confirmation of this book-entry transfer will include an agent s message confirming that DTC has received an express acknowledgment from this participant that this participant has received and agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against this participant. Delivery of exchange notes issued in the exchange offer may be effected through book-entry transfer at DTC. However, the letter of transmittal or facsimile of it or an agent s message, with any required signature guarantees and any other required documents, must:

be transmitted to and received by the exchange agent at the address listed below under Exchange Agent on or prior to the expiration date; or

comply with the guaranteed delivery procedures described below.

Exchanging Book-Entry Notes

The exchange agent and the book-entry transfer facility have confirmed that any financial institution that is a participant in the book-entry transfer facility may utilize the book-entry transfer facility Automated Tender Offer Program, or ATOP, procedures to tender original notes. Any participant in the book-entry transfer facility may make book-entry delivery of original notes by causing the book-entry transfer facility to transfer such original notes into the exchange agent s account in accordance with the book-entry transfer facility s ATOP procedures for transfer. However, the exchange for the original notes so tendered will only be made after book-entry confirmation of the book-entry transfer of original notes into the exchange agent s account, and timely receipt by the exchange agent of an agent s message and any other documents required by the letter of transmittal. The term agent s message means a message, transmitted by the book-entry transfer facility and received by the exchange agent and forming part of a book-entry confirmation, which states that the book-entry transfer facility has received an express acknowledgment from a participant tendering original notes that are the subject of such book-entry confirmation that such participant has received and agrees to be bound by the terms of the letter of transmittal, and that we may enforce such agreement against such participant.

Guaranteed Delivery Procedures

If a registered holder of original notes desires to tender the original notes, and the original notes are not immediately available, or time will not permit the holder s original notes or other required documents to reach the exchange agent before the expiration date, or the procedure for book-entry transfer described above cannot be completed on a timely basis, a tender may nonetheless be made if:

the tender is made through an eligible institution;

prior to the expiration date, the exchange agent receives from an eligible institution a properly completed and duly executed letter of transmittal, or a facsimile of the letter of transmittal, and notice of guaranteed delivery, substantially in the form provided by us, by facsimile transmission, mail or hand delivery,

(1) stating the name and address of the holder of original notes and the amount of original notes tendered;

(2) stating that the tender is being made; and

(3) guaranteeing that within three New York Stock Exchange trading days after the expiration date, the certificates for all physically tendered original notes, in proper form for transfer, or a book-entry confirmation, as the case may be, and any other documents required by the letter of transmittal will be deposited by the eligible institution with the exchange agent; and

the certificates for all physically tendered original notes, in proper form for transfer, or a book-entry confirmation, as the case may be, and all other documents required by the letter of transmittal, are received by the exchange agent within three New York Stock Exchange trading days after the expiration date.

Withdrawal Rights

Tenders of original notes may be withdrawn at any time before 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective, the exchange agent must receive a written notice of withdrawal at the address or, in the case of eligible institutions, at the facsimile number, indicated below under Exchange Agent before 5:00 p.m., New York City time, on the expiration date. Any notice of withdrawal must:

specify the name of the person, referred to as the depositor, having tendered the original notes to be withdrawn;

identify the original notes to be withdrawn, including the certificate number or numbers and principal amount of the original notes;

in the case of original notes tendered by book-entry transfer, specify the number of the account at the book-entry transfer facility from which the original notes were tendered and specify the name and number of the account at the book-entry transfer facility to be credited with the withdrawn original notes and otherwise comply with the procedures of such facility;

contain a statement that the holder is withdrawing his election to have the original notes exchanged;

be signed by the holder in the same manner as the original signature on the letter of transmittal by which the original notes were tendered, including any required signature guarantees, or be accompanied by documents of transfer to have the trustee with respect to the original notes register the transfer of the original notes in the name of the person withdrawing the tender; and

specify the name in which the original notes are registered, if different from that of the depositor.

If certificates for original notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of these certificates, the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and signed notice of withdrawal with signatures guaranteed by an eligible institution unless such holder is an eligible institution. We will determine all questions as to the validity, form and eligibility, including time of receipt, of notices of withdrawal. Any original notes so withdrawn will be deemed not to have been validly tendered for exchange. No exchange notes will be issued unless the original notes so withdrawn are validly re-tendered. Any original notes that have been tendered for exchange, but which are not exchanged for any reason, will be returned to the tendering holder without cost to the holder. In the case of original notes tendered by book-entry transfer, the original notes will be credited to an account maintained with the book-entry transfer facility for the original notes. Properly withdrawn original

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notes may be re-tendered by following the procedures described under Procedures for Tendering above at any time on or before 5:00 p.m., New York City time, on the expiration date.

Conditions to the Exchange Offer

Notwithstanding any other provision of the exchange offer, we shall not be required to accept for exchange, or to issue exchange notes in exchange for, any original notes, and may terminate or amend the exchange offer, if at any time prior to the expiration date any of the following events occurs:

- any order or decree issued by any court or governmental agency or other governmental regulatory or administrative agency or commission makes it unlawful for us to proceed with the exchange offer;
- a change in applicable law prohibits the consummation of the exchange offer; or
- any interpretation of applicable law by the SEC staff conflicts with the consummation of the exchange offer.

In addition, we will not accept for exchange any original notes tendered, and no exchange notes will be issued in exchange for any original notes, if any stop order is threatened by the SEC or in effect relating to the registration statement of which this prospectus constitutes a part. We are required to use our reasonable best efforts to obtain the withdrawal of any order suspending the effectiveness of a registration statement.

Exchange Agent

We have appointed The Bank of New York Mellon Trust Company, N.A. as the exchange agent for the exchange offer. You should direct all executed letters of transmittal to the exchange agent at the address indicated below. You should direct questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery to the exchange agent addressed as follows:

The Bank of New York Mellon Trust Company, N.A.
c/o The Bank of New York Mellon Corporation
Corporate Trust Operations
Reorganization Unit
101 Barclay Street 7 East
New York, NY 10286
Attention: Mr. William Buckley
By Facsimile: (212) 298-1915
By Telephone: (212) 815-5788

(for eligible Institutions only):
Attn: Mr. William Buckley
(212) 298-1915
Confirm by Telephone:
(212) 815-5788

All other questions should be addressed to Illinois Tool Works Inc., (847) 657-4929, Attention: Kathleen Nuzzi. If you deliver the letter of transmittal to an address other than the address for the exchange agent indicated above or transmit instructions via facsimile other than to any facsimile number for the exchange agent indicated above, then your delivery or transmission will not constitute a valid delivery of the letter of transmittal.

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Fees and Expenses

The registration rights agreement provides that we will bear all expenses in connection with the performance of our obligations relating to the registration of the exchange notes and the conduct of the exchange offer. These expenses include registration and filing fees, accounting and legal fees and printing costs, among others. We will pay the exchange agent reasonable and customary fees for its services and reasonable out-of-pocket expenses. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for customary mailing and handling expenses incurred by them in forwarding this prospectus and related documents to their clients that are holders of old notes and for handling or tendering for such clients.

We have not retained any dealer-manager in connection with the exchange offer and will not pay any fee or commission to any broker, dealer, nominee or other person, other than the exchange agent, for soliciting tenders of old notes pursuant to the exchange offer.

Transfer Taxes

We will pay any transfer taxes in connection with the tender of original notes in the exchange offer unless you instruct us to register exchange notes in the name of, or request that original notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder. In those cases, you will be responsible for the payment of any applicable transfer taxes.

Accounting Treatment

The exchange notes will be recorded at the same carrying value as the original notes as reflected in our accounting records on the date of the exchange. Accordingly, we will not recognize any gain or loss for accounting purposes upon the completion of the exchange offer. The expenses of the exchange offer that we pay will be charged to expense in accordance with generally accepted accounting principles.

Consequences of Exchanging or Failing to Exchange the Original Notes

Holders of original notes who do not exchange their original notes for exchange notes in the exchange offer will continue to be subject to the provisions in the indenture regarding transfer and exchange of the original notes and the restrictions on transfer of the original notes as described in the legend on the original notes as a consequence of the issuance of the original notes under exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the original notes may not be offered or sold, unless registered under the Securities Act, except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Original note holders that do not exchange original notes for exchange notes in the exchange offer will no longer have any registration rights with respect to the original notes.

Under existing interpretations of the Securities Act by the SEC s staff contained in several no-action letters to third parties, and subject to the immediately following sentence, we believe that the exchange notes would generally be freely transferable by holders after the exchange offer without further registration under the Securities Act, subject to certain representations required to be made by each holder of exchange notes, as set forth below. However, any purchaser of exchange notes who is one of our affiliates (as defined in Rule 405 under the Securities Act) or who intends to participate in the exchange offer for the purpose of distributing the exchange notes:

- will not be able to rely on the interpretation of the SEC s staff;

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will not be able to tender its original notes in the exchange offer; and

must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the notes unless such sale or transfer is made pursuant to an exemption from such requirements. See Plan of Distribution.

We do not intend to seek our own interpretation regarding the exchange offer and there can be no assurance that the SEC s staff would make a similar determination with respect to the exchange notes as it has in other interpretations to other parties, although we have no reason to believe otherwise.

Registration Rights Agreement

The following description is a summary of the material provisions of the registration rights agreement with respect to the original notes. It does not restate that agreement in its entirety. We urge you to read the registration rights agreement in its entirety because it, and not this description, defines your registration rights as holders of the original notes. A copy of the registration rights agreement has been filed as an exhibit to the Current Report on Form 8-K that we filed with the SEC on March 27, 2009 and is available from us upon request. See Where You Can Find More Information.

On March 26, 2009, we and the initial purchasers entered into a registration rights agreement with respect to the original notes. Pursuant to the registration rights agreement, we agreed to file with the SEC a registration statement (the Exchange Offer Registration Statement) on the appropriate form under the Securities Act, with respect to the exchange notes. This prospectus is part of the required Exchange Offer Registration Statement.

If the original notes are not freely tradable pursuant to Rule 144 under the Securities Act and:

we determine that registration of the exchange offer is not available or that the exchange offer may not be completed as soon as practicable after the closing of the exchange offer because it would violate applicable law or SEC policy;

for any reason, the exchange offer is required to be but not consummated within the required time period; or

any holder of original notes that participates in the exchange offer fails to receive exchange notes on the date of the exchange that may be sold without restriction under state and federal securities laws (other than due solely to the status of that holder as an affiliate of us within the meaning of the Securities Act or as a broker-dealer);

we will file with the SEC a shelf registration statement (the Shelf Registration Statement) to cover resales of the original notes by the holders thereof who satisfy certain conditions relating to the provision of information in connection with the Shelf Registration Statement. In addition, we may elect to file a Shelf Registration Statement even if not otherwise required to do so (a Voluntary Shelf Registration Statement).

We will use our reasonable best efforts to cause the applicable registration statement to be declared effective by the SEC within the time periods specified in the following paragraph.

The registration rights agreement provides that:

(1) unless the exchange offer is not permitted by applicable law or SEC policy, we must file the Exchange Offer Registration Statement with the SEC on or prior to the 90th day after the issue date of the original notes;

(2) unless the exchange offer is not permitted by applicable law or SEC policy, we must use our reasonable best efforts to have the Exchange Offer Registration Statement declared effective by the SEC on or prior to the 150th day after the issue date of the original notes;

(3) unless the original notes are freely tradable pursuant to Rule 144 of the Securities Act or unless the exchange offer is not permitted by applicable law or SEC policy, we must

(a) commence the exchange offer promptly after the Exchange Offer Registration Statement has been declared effective;

(b) use our reasonable best efforts to cause the exchange to be completed not later than 180 days after the issue date of the original notes; and

(c) if obligated to file the Shelf Registration Statement, we would file the Shelf Registration Statement with the SEC on or prior to 45 days after such filing obligation arises and use our reasonable best efforts to cause the Shelf Registration Statement to be declared effective by the SEC on or prior to 60 days after such filing.

To the extent the original notes were not freely tradable pursuant to Rule 144 under the Securities Act after the issue date of the original notes, and:

(1) we fail to file any of the registration statements required by the registration rights agreement on or before the date specified for such filing; or

(2) any of such registration statements is not declared effective by the SEC on or prior to the date specified for such effectiveness; or

(3) we fail to consummate the exchange offer, and a Voluntary Shelf Registration Statement has not become effective, on or prior to September 22, 2009; or

(4) the Shelf Registration Statement is declared effective but thereafter ceases to be effective or usable in connection with resales or exchanges of original notes during the periods specified in the registration rights agreement, including during any blackout period relating to the Shelf Registration Statement permitted by the registration rights agreement (each such event referred to in clauses (1) through (4) above, a Registration Default),

then we will pay additional interest to each holder of notes, which will accrue from and including the day after the date such Registration Default occurs and until it no longer exists or the first anniversary of the issuance of the original notes, whichever first occurs.

During the time that additional interest is accruing, the rate of additional interest will be 0.25% per annum during the first 90-day period after a Registration Default and will increase to 0.50% per annum thereafter, but in no event will the rate exceed 0.50% per annum in the aggregate regardless of the number of Registration Defaults. No additional interest will accrue if we timely file an Exchange Offer Registration Statement but are unable to complete the exchange offer because of a change in applicable law and we then proceed timely with the filing and effectiveness of the Shelf Registration Statement. If, after the cure of all Registration Defaults then in effect, there is a subsequent Registration Default, the rate of additional interest for such subsequent Registration Default will initially be 0.25% per annum, regardless of the additional interest rate in effect with respect to any prior Registration Default at the time of

the cure of the Registration Default.

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All accrued additional interest will be paid by us on each interest payment date to the holders in the same manner as other interest is paid on the original notes. See Description of Exchange Notes Interest Payments and Maturity.

Following the cure of all Registration Defaults, the accrual of additional interest will cease. The provision for additional interest will be the only monetary remedy available to holders under the registration rights agreement.

Holders of the original notes will be required to make certain representations to us (as described in the registration rights agreement) in order to participate in the exchange offer and to deliver certain information to be used in connection with any Shelf Registration Statement within the time periods set forth in the registration rights agreement in order to have their original notes included in the Shelf Registration Statement and benefit from the provisions regarding additional interest set forth above. By acquiring original notes, a holder will be deemed to have agreed to indemnify us against certain losses arising out of information furnished by such holder in writing for inclusion in any Shelf Registration Statement. Holders of original notes will also be required to suspend their use of the prospectus included in the Shelf Registration Statement under certain circumstances upon receipt of written notice to that effect from us.

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USE OF PROCEEDS

We will not receive any proceeds from the exchange offer. In consideration for issuing exchange notes, we will receive in exchange original notes of like principal amount. The original notes surrendered in exchange for exchange notes will be retired and canceled.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents our selected consolidated financial data for the periods indicated. The consolidated statement of income data for each of the years in the three-year period ended December 31, 2008 and the consolidated statement of financial position data as of December 31, 2008 and 2007 have been derived from our audited consolidated financial statements incorporated by reference herein. The consolidated statement of income data for the years ended December 31, 2005 and 2004 and the consolidated statement of financial position data as of December 31, 2006, 2005 and 2004 have been derived from the audited consolidated financial statements not included or incorporated by reference herein. The consolidated statement of income data for the six months ended June 30, 2009 and 2008 and the consolidated statement of financial position data as of June 30, 2009 have been derived from our unaudited interim consolidated financial statements incorporated by reference herein. The consolidated statement of financial position data as of June 30, 2008 have been derived from our unaudited interim consolidated financial statements not included or incorporated by reference herein.

The selected historical consolidated financial data presented below should be read in conjunction with our audited consolidated financial statements and accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations in our Fiscal 2008 Form 10-K, as updated by our Current Report on Form 8-K filed August 7, 2009, and Management s Discussion and Analysis in our Fiscal 2009 Second Quarter Form 10-Q, which are incorporated by reference in this prospectus. See Incorporation of Documents by Reference. Our audited consolidated financial information may not be indicative of our future performance.

thousands xcept per share nounts)	Six Months Ended June 30		Fiscal Year Ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
perating revenues	$ 6,539,285	$ 8,681,691	$ 17,100,341	$ 16,110,267	$ 13,788,346	$ 12,540,360	$ 11,336,10
come from ntinuing erations	170,927	924,042	1,691,093	1,827,691	1,680,551	1,480,435	1,330,13
come from ntinuing erations per mmon share:							
sic	0.34	1.76	3.26	3.31	2.97	2.59	2.2
luted	0.34	1.75	3.24	3.29	2.95	2.57	2.1
tal assets at riod end	14,741,675	16,589,955	15,203,551	15,525,862	13,880,439	11,445,643	11,351,93
ng-term debt at riod end	2,855,812	1,462,435	1,247,883	1,888,839	955,610	958,321	921,09
sh dividends clared per mmon share	0.62	0.56	1.18	0.98	0.75	0.61	0.5

Certain reclassifications of prior years data have been made to conform with current year reporting, including discontinued operations.

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Staff Position No. FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction (FSP 13-2). FSP 13-2 addresses how a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for that lease. Refer to the Investments note in the Notes to Financial Statements included in Item 8 *Financial Statements and Supplementary Data* in Exhibit 99.1 of our Current Report on Form 8-K filed August 7, 2009, for discussion of the change in accounting principle.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). On December 31, 2006, we adopted the recognition and disclosure provisions of SFAS 158. This statement requires employers to

recognize the overfunded or underfunded status of defined benefit pension and postretirement plans as an asset or liability in its statement of financial position and previously unrecognized changes in that funded status through accumulated other comprehensive income. On January 1, 2008, we adopted the measurement date provisions of SFAS 158, which required us to change its measurement date to correspond with our fiscal year-end. We previously used a September 30 measurement date. Refer to the Retirement Plans and Postretirement Benefits note in the Notes to Financial Statements included in Item 8 *Financial Statements and Supplementary Data* in Exhibit 99.1 of our Current Report on Form 8-K filed August 7, 2009, for discussion of the effect of the change in accounting principle.

Effective January 1, 2005, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which requires us to measure the cost of employee services received in exchange for equity awards based on the grant date fair value. Upon adoption of SFAS 123R, we record compensation expense for the fair value of stock awards over the remaining service periods of those awards.

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DESCRIPTION OF EXCHANGE NOTES

On March 26, 2009 we issued in a private placement $800,000,000 aggregate principal amount of 5.15% Notes due 2014 and $700,000,000 aggregate principal amount of 6.25% Notes due 2019. The original notes were not registered under the Securities Act and were issued, and the exchange notes will be issued, under the Indenture dated as of November 1, 1986, as supplemented by a First Supplemental Indenture dated as of May 1, 1990, between us and The Bank of New York Mellon Trust Company, N.A., as successor trustee, with certain terms of the original notes and the exchange notes being set forth in an officers certificate dated March 26, 2009 (together, the indenture).

Except as set forth in this prospectus, the terms of the exchange notes are identical in all material respects to the terms of the original notes except that the exchange notes are registered under the Securities Act, and the transfer restrictions, registration rights and additional interest provisions applicable to the original notes do not apply to the exchange notes.

The indenture contains provisions that define your rights under the exchange notes and governs our obligations under the exchange notes. The indenture provides for the issuance of the exchange notes and sets forth the duties of the Trustee. The following description is only a summary of certain provisions of the indenture and the exchange notes, and is qualified in its entirety by reference to the provisions of the indenture and the exchange notes, including the definitions therein of certain terms. The terms of the exchange notes will include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended.

Copies of the Indenture and the First Supplemental Indenture have been filed as exhibits to the Registration Statement on Form S-3 that we filed with the SEC on January 15, 1999. A copy of the Officers Certificate relating to the original notes and the exchange notes was filed as an exhibit to the Current Report on Form 8-K we filed with the SEC on March 27, 2009. Each of these documents is available from us upon request. See Where You Can Find More Information. We urge you to read the indenture (including the forms of the 2014 exchange note and the 2019 exchange note) because it, and not this description, defines your rights as a holder of exchange notes. Certain defined terms used in this description but not defined below have the meanings assigned to them in the indenture.

The registered holder of an exchange note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture.

General

We will issue each of the 2014 exchange notes and the 2019 exchange notes as a separate series of debt securities under the indenture.

The 2014 exchange notes will initially be limited to $800,000,000 aggregate principal amount, and the 2019 exchange notes will initially be limited to $700,000,000 aggregate principal amount. The exchange notes will not have the benefit of any sinking fund. The exchange notes will not be convertible or exchangeable. We will issue the exchange notes in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.

We may from time to time under the indenture, without the consent of the existing holders of exchange notes, create and issue additional notes of either series with the same terms and conditions and with the same CUSIP number as the exchange notes of such series, except for issue date, issue price and the first payment of interest thereon. Additional notes of such series issued in this manner will be consolidated with and will form a single series with the previously outstanding exchange notes of the applicable series.

Ranking

The exchange notes will be our direct, unsecured obligations. They will rank on a parity with all of our other unsecured and unsubordinated indebtedness.

Interest Payments and Maturity

The 2014 exchange notes will mature on April 1, 2014, and the 2019 exchange notes will mature on April 1, 2019. The exchange notes will be issued in book-entry form only. At our option, we may redeem the exchange notes prior to maturity.

The exchange notes will bear interest from March 26, 2009, payable semi-annually in arrears on April 1 and October 1 to the persons in whose name they are registered at the close of business on March 15 or September 15 preceding the interest payment date. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. The first interest payment will be made on October 1, 2009.

Principal of and any premium or interest on the exchange notes will be payable, and the exchange notes may be registered for transfer or exchanged without payment of any charge (other than any tax or other governmental charge payable in connection therewith), at our office or agency in Chicago, Illinois and any other location we designate. Initially, the trustee s offices in Chicago, Illinois and New York, New York will serve as our offices and agency for these purposes. However, we may elect that payment of interest on registered exchange notes be made by check mailed to the address of the appropriate person as it appears on the security register or by wire transfer as instructed by the appropriate person.

If any interest payment date or maturity or redemption date falls on a day that is not a business day, then the payment will be made on the next business day without additional interest and with the same effect as if it were made on the originally scheduled date.

Optional Redemption

At any time and from time to time, the 2014 exchange notes and the 2019 exchange notes will in each case be redeemable in whole or in part, at our option, at a redemption price equal to the greater of:

(1) 100% of the principal amount of the notes to be redeemed on the date of redemption; or;

(2) the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed on the date of redemption (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semiannual basis at the Treasury Rate (as defined below) plus 50 basis points, as determined by a Reference Treasury Dealer (as defined below),

plus, in each case, accrued and unpaid interest on the principal amount being redeemed to the date of redemption. Notwithstanding the foregoing, installments of interest on exchange notes that are due and payable on interest payment dates falling on or prior to a date of redemption will be payable on the interest payment date to the registered holders as of the close of business on the relevant record date according to the exchange notes and the indenture. The redemption price will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Comparable Treasury Issue means the United States Treasury security selected by the Reference Treasury Dealer as having a maturity comparable to the remaining term of the series of the exchange notes to be redeemed that would be

utilized, at the time of selection and in accordance

with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

Comparable Treasury Price means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if we obtain fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations, or (iii) if only one Reference Treasury Dealer Quotation is received, such quotation.

Primary Treasury Dealer means a primary United States government securities dealer in the United States.

Reference Treasury Dealer means (i) Banc of America Securities LLC and HSBC Securities (USA) Inc. (or their respective affiliates that are Primary Treasury Dealers) and their respective successors; provided, however, that if any of the foregoing shall cease to be a Primary Treasury Dealer, we will substitute therefor another Primary Treasury Dealer and (ii) any other Primary Treasury Dealer(s) (in any case not less than two) selected by us.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by us, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to us by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

We will, or will cause the trustee on our behalf to, mail notice of a redemption to holders of exchange notes to be redeemed by first-class mail at least 30 and not more than 60 days prior to the date fixed for redemption. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the exchange notes or portions thereof called for redemption. On or before the redemption date, we will deposit with a paying agent (which may be the trustee) or set aside, segregate and hold in trust (if we are acting as paying agent), funds sufficient to pay the redemption price of, and accrued and unpaid interest on, such notes to be redeemed on that redemption date. If fewer than all of the notes of a series are to be redeemed, the trustee will select, not more than 60 days prior to the redemption date, the particular notes or portions thereof for redemption from the outstanding exchange notes of such series not previously called by such method as the trustee deems fair and appropriate; provided, however, that no exchange notes of a principal amount of $2,000 or less shall be redeemed in part.

Covenants

The following covenants apply to the exchange notes. Each of the covenants is subject to the provision for exempted indebtedness described below.

For your reference, we have provided below definitions of the capitalized terms used in the description of the covenants.

Limitation on Liens

We will not, nor will we permit any Restricted Subsidiary to, issue, assume or guarantee any debt for money borrowed if such debt is secured by a mortgage, security interest, lien, pledge or other encumbrance (referred to in this prospectus as a lien) on any Principal Property, or on any shares of stock or indebtedness of any Restricted Subsidiary,

without in any such case effectively

providing that the exchange notes (and if we so choose, any other debt or obligation that ranks equally with the exchange notes) are secured equally and ratably with, or prior to, such debt.

These restrictions do not apply to debt secured by:

- liens on property of a corporation existing at the time it becomes a subsidiary or at the time it is merged into or consolidated with or purchased by us or a subsidiary;
- liens on property existing at the time of its acquisition and certain purchase money liens;
- liens securing the cost of construction of new plants, incurred within 180 days of completion of construction;
- liens securing the debt of a Restricted Subsidiary owing to us or another Restricted Subsidiary;
- liens in connection with the issuance of certain industrial revenue bonds or similar financings;
- liens existing on the date of the indenture;
- certain other liens specified in the indenture that are customarily exempted from restrictions in offerings of securities similar to the notes; and
- any extensions, renewals or replacements, in whole or in part, of any lien referred to above, as long as the principal amount of debt secured by any such lien does not increase and the lien is limited to all or part of the same property that previously secured the lien.

Limitation on Sale and Lease-back

We will not, nor will we permit any Restricted Subsidiary to, engage in a sale and lease-back transaction of any Principal Property (except for certain temporary leases and leases with a Restricted Subsidiary) unless:

- we or the Restricted Subsidiary could (subject to the limitation on liens) incur debt secured by a lien on the Principal Property to be leased without equally and ratably securing the notes; or
- within 180 days following such a transaction, we retire long-term debt equal to the value of the transaction.

Exempted Indebtedness

We and our Restricted Subsidiaries may incur debt and enter into sale and lease-back transactions without regard to the two covenants described above if the sum of such debt and the value of such sale and lease-back transactions on a cumulative basis does not exceed 10% of the Consolidated Net Tangible Assets (which is total assets less current liabilities, goodwill and other intangibles) as shown on our audited consolidated statement of financial position in our latest annual report to our stockholders.

Definitions

Principal Property means any manufacturing plant or other facility within the United States that we or a subsidiary own or lease, unless our Board of Directors determines that the plant or facility, together with any others so

determined, is not of material importance to the total business of us and our Restricted Subsidiaries.

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Restricted Subsidiary means any subsidiary (other than a subsidiary principally engaged in leasing or financing installment receivables or financing operations outside the United States) that owns or leases a Principal Property if: (1) substantially all of its property is located in the United States, (2) substantially all of its business is carried on in the United States, or (3) it is incorporated in any State of the United States.

Consolidation or Merger

We may consolidate or merge with another corporation or sell, convey or lease all or substantially all of our assets to another corporation or entity. The successor or acquiring corporation or entity must expressly assume all of our responsibilities and liabilities under the indenture, including the payment of all amounts due on the exchange notes and performance of the covenants. If, upon any such consolidation, merger, sale, conveyance or lease, or upon any such consolidation, merger, sale, conveyance or lease with respect to a Restricted Subsidiary, any Principal Property or shares of stock or indebtedness of a Restricted Subsidiary would become subject to a lien that is not in favor of us, a Restricted Subsidiary or any such successor or acquiring corporation or entity, we must, before or at the time of such transaction, effectively provide that the exchange notes will be secured (if we so choose, equally and ratably with any other obligation of us or a Restricted Subsidiary that ranks equally with the exchange notes) by a direct lien on such Principal Property or shares of stock or indebtedness of a Restricted Subsidiary that is prior to all liens other than pre-existing liens on such Principal Property or shares of stock or indebtedness of a Restricted Subsidiary, and that will continue as long as such Principal Property, shares of stock or indebtedness is subject to the lien arising in such transaction.

Events of Default

An event of default for any series of the exchange notes includes the following:

- failure to pay any installment of interest on the notes of that series that continues for 30 days after such payment is due;
- failure to pay principal of or premium, if any, on the notes of that series when due;
- failure to perform any of the other covenants or agreements in the exchange notes or in the indenture and relating to the exchange notes of that series that continues for 60 days after notice to us by the trustee or holders of at least 25% in aggregate principal amount of the outstanding exchange notes of that series; or
- certain events of bankruptcy, insolvency or reorganization of us.

An event of default with respect to a particular series of exchange notes issued under the indenture does not necessarily constitute an event of default with respect to any other series. The indenture provides that the trustee will, with certain exceptions, notify the holders of the affected series of exchange notes of the occurrence of any of the events of default listed above (not including any applicable grace period and irrespective of the giving of notice as described in the third bullet) known to the trustee within 90 days after the occurrence thereof. Except in the case of a default in the payment of principal of, or premium, if any, or interest on a series of the exchange notes, the trustee may withhold notice if it determines in good faith that withholding notice is in the interest of the holders.

If an event of default is continuing for any series of the exchange notes, the trustee or the holders of not less than 25% in aggregate principal amount of the affected series of exchange notes then outstanding may declare the principal amount of that series of the exchange notes to be due and payable immediately. In such a case, subject to certain conditions, the holders of a majority in

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aggregate principal amount of that series of the exchange notes then outstanding can annul the declaration and waive past defaults.

We are required to provide an annual officers certificate to the trustee concerning our compliance with certain covenants we make in the indenture. Subject to the provisions of the indenture relating to the duties of the trustee, the trustee is not obligated to exercise any of its rights or powers at the request or direction of any of the holders of notes unless the holders have offered the trustee reasonable security or indemnity. The holders of a majority in principal amount of the outstanding exchange notes of each series affected by an event of default may direct the time, method and place of conducting any proceeding for any remedy available to the trustee under the indenture or exercising any of the trustee s trusts or powers with respect to that series of the exchange notes; however, the trustee may decline to follow such direction in certain circumstances.

Modification and Amendment of the Indenture

We may enter into supplemental indentures with the trustee without the consent of the holders of the exchange notes to, among other things:

- evidence the assumption by a successor corporation of our obligations under the indenture;
- appoint additional or separate trustees to act under the indenture;
- add covenants for the protection of the holders of the exchange notes; and
- cure any ambiguity or correct any inconsistency in the indenture.

With the consent of the holders of a majority in aggregate principal amount of the securities of each affected series issued under the indenture at the time outstanding, we may execute supplemental indentures with the trustee to add provisions or change or eliminate any provision of the indenture or any supplemental indenture relating to such series or to modify the rights of the holders of those securities. However, no such supplemental indenture will (1) extend the fixed maturity of any securities, reduce the principal amount (including in the case of discounted securities the amount payable upon acceleration of the maturity thereof), reduce the rate or extend the time of payment of any interest, reduce any premium payable upon redemption, or change the currency in which any securities are payable, without the consent of each holder of affected securities, or (2) reduce the aforesaid majority in principal amount of the securities of any series, the consent of the holders of which is required for any such supplemental indenture, without the consent of the holders of all securities of such series.

Defeasance and Discharge of Indenture or Certain Obligations

At our option, we (1) will be discharged from all obligations under the indenture in respect of the exchange notes of a series (except for certain obligations to register the transfer of or to exchange notes, replace stolen, lost or mutilated notes, maintain paying agencies and hold monies for payment in trust) or (2) need not comply with certain covenants of the indenture (including the limitation on liens and the limitation on sale and lease-back) and will not be limited by the restrictions in the indenture with respect to merger, consolidation or sale, conveyance or lease of substantially all of our assets, in each case if we irrevocably deposit with the trustee, in trust, money or U.S. government obligations (or a combination thereof) sufficient to pay the principal of and any premium or interest on the exchange notes when due and satisfy other conditions in the indenture. In order to select either option, we must provide the trustee, among other things, a ruling from or published by the Internal Revenue Service (in the case of option 1) or an opinion of counsel (in the case of option 2) to the effect that holders of the exchange notes will not recognize income, gain or

loss for Federal income tax purposes as a result of our exercise of the option, as if we had not exercised such option.

In the event we exercise our option under (2) above with respect to the exchange notes and the exchange notes of any series are declared due and payable because of the occurrence of any event of default other than default with respect to such obligations, the amount of money and U.S. government obligations on deposit with the trustee will be sufficient to pay amounts due on the exchange notes of that series at the time of their stated maturity but may not be sufficient to pay amounts due on the exchange notes of that series at the time of the acceleration resulting from such event of default. We would remain liable, however, for such payments.

Book-Entry System

Global Notes

We will issue each series of the exchange notes as one or more registered global notes in definitive form without coupons. The global exchange notes will be deposited with or on behalf of the Depository Trust Company (DTC) as depositary and registered in the name of Cede & Co., as nominee of DTC.

DTC, Clearstream and Euroclear

Beneficial interests in the global exchange notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may hold interests in the global exchange notes through either DTC (in the United States), Clearstream Banking, société anonyme, Luxembourg, which we refer to as Clearstream, or Euroclear Bank S.A./N.V., as operator of the Euroclear System, which we refer to as Euroclear, in Europe, either directly if they are participants in such systems or indirectly through organizations that are participants in such systems. Clearstream and Euroclear will hold interests on behalf of their participants through customers securities accounts in Clearstream s and Euroclear s names on the books of their United States depositaries, which in turn will hold such interests in customers securities accounts in the United States depositaries names on the books of DTC. We have obtained the information in this section concerning DTC, Clearstream and Euroclear and the book entry system and procedures from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information.

We understand that:

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered under Section 17A of the Exchange Act.

DTC holds securities that its participants deposit with DTC and facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants accounts, thereby eliminating the need for physical movement of securities certificates;

Direct participants of DTC include securities brokers and dealers, banks, trust companies, clearing corporations and other organizations, including Clearstream and Euroclear.

DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). DTCC is the holding company for DTC, National Securities Clearing

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Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries.

Access to the DTC system is also available to indirect participants such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly.

The rules applicable to DTC and its direct and indirect participants are on file with the SEC.

We understand that Clearstream is incorporated under the laws of Luxembourg as a professional depositary. Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between its customers through electronic book-entry changes in accounts of its customers, thereby eliminating the need for physical movement of certificates. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depositary, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Section. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and other organizations and may include the initial purchasers. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream customer either directly or indirectly.

We understand that Euroclear was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V., which we refer to as the Euroclear Operator, under contract with Euroclear Clearance Systems S.C., a Belgian cooperative corporation, which we refer to as the Cooperative. All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers, and other professional financial intermediaries and may include the initial purchasers. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

We understand that the Euroclear Operator is licensed by the Belgian Banking and Finance Commission to carry out banking activities on a global basis. As a Belgian bank, it is regulated and examined by the Belgian Banking and Finance Commission.

We have provided the descriptions of the operations and procedures of DTC, Clearstream and Euroclear in this prospectus solely as a matter of convenience, and we make no representation or warranty of any kind with respect to these operations and procedures. These operations and procedures are solely within the control of those organizations and are subject to change by them from time to time. None of us, the initial purchasers or the trustee takes any responsibility for these operations or procedures, and you are urged to contact DTC, Clearstream and Euroclear or their participants directly to discuss these matters.

We expect that under procedures established by DTC:

- upon deposit of the global exchange notes with DTC or its custodian, DTC will credit on its internal system the accounts of direct participants designated by the initial purchasers with portions of the principal amounts of the global exchange notes; and

- ownership of the exchange notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC or its nominee, with respect to interests of direct participants, and the records of direct and indirect participants, with respect to interests of persons other than participants.

The laws of some jurisdictions may require that purchasers of securities take physical delivery of those securities in definitive form. Accordingly, the ability to transfer interests in the exchange notes represented by a global exchange note to those persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in exchange notes represented by a global exchange note to pledge or transfer those interests to persons or entities that do not participate in DTC s system, or otherwise to take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a global exchange note, DTC or that nominee will be considered the sole owner or holder of the exchange notes represented by that global exchange note for all purposes under the indenture and under the exchange notes. Except as described below, owners of beneficial interests in a global exchange note will not be entitled to have exchange notes represented by that global exchange note registered in their names, will not receive or be entitled to receive physical delivery of certificated exchange notes and will not be considered the owners or holders thereof under the indenture or under the exchange notes for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee. Accordingly, each holder owning a beneficial interest in a global exchange note must rely on the procedures of DTC and, if that holder is not a direct or indirect participant, on the procedures of the participant through which that holder owns its interest, to exercise any rights of a holder of exchange notes under the indenture or a global exchange note.

None of us, the trustee or the initial purchasers will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the exchange notes by DTC, Clearstream or Euroclear, or for maintaining, supervising or reviewing any records of those organizations relating to beneficial ownership interests in the exchange notes.

Payments on the exchange notes represented by the global exchange notes will be made to the person specified in the global exchange notes, which initially will be DTC or its nominee. We expect that DTC or its nominee, upon receipt of any payment on the exchange notes represented by a global exchange note, will credit participants accounts with payments in amounts proportionate to their respective beneficial interests in the global exchange note as shown in the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in the global exchange note held through such participants will be governed by standing instructions and customary practice as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. The participants will be solely responsible for those payments.

Distributions on the exchange notes held beneficially through Clearstream will be credited to cash accounts of its customers in accordance with its rules and procedures, to the extent received by the United States depositary for Clearstream.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the Terms and Conditions). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions on the exchange notes held beneficially through Euroclear will be credited to the cash accounts of its participants in accordance with the Terms and Conditions, to the extent received by the United States depositary for Euroclear.

Clearance and Settlement Procedures

Initial settlement for the exchange notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled in immediately available funds. Secondary market trading between Clearstream customers and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear, as applicable, and will be settled using the procedures applicable to conventional Eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream customers or Euroclear participants, on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the United States depositary. Such cross-market transactions, however, will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to the United States depositary to take action to effect final settlement on its behalf by delivering or receiving the exchange notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream customers and Euroclear participants may not deliver instructions directly to their United States depositaries.

Because of time-zone differences, credits of the exchange notes received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in the exchange notes settled during such processing will be reported to the relevant Clearstream customers or Euroclear participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of the exchange notes by or through a Clearstream customer or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures to facilitate transfers of the exchange notes among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be changed or discontinued at any time.

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Certificated Notes

If the depositary at any time notifies us that it is unwilling or unable to continue as a depositary, or if the depositary becomes ineligible to serve, and we do not appoint a successor depositary within 90 days, we will issue exchange notes in definitive form in exchange for the global exchange notes. In addition, we may at any time and in our sole discretion determine not to have any series of exchange notes represented by one or more global exchange notes and, in such event, we will issue exchange notes of that series in definitive form in exchange for the global exchange note or notes. In any such instance, if we issue registered exchange notes in exchange for global exchange notes, we will register the definitive exchange notes in such names and in such denominations authorized under the indenture as the depositary, pursuant to instructions from its direct or indirect participants or otherwise, instructs the trustee. The trustee will deliver the registered definitive exchange notes to or on the order of the persons in whose names they are registered.

Governing Law

The indenture and the exchange notes will be governed by, and construed and enforced in accordance with, the laws of the State of Illinois applicable to agreements made or instruments entered into and, in each case, performed in said state.

Relationship with Trustee

The Bank of New York Mellon Trust Company, N.A. currently serves as the trustee with respect to other of our outstanding debt securities and will serve as exchange agent for the exchange offer.

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MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the material U.S. federal income tax consequences to a holder who purchased original notes in the initial offering at the issue price relating to the exchange of original notes for exchange notes pursuant to the exchange offer. This summary is based upon existing U.S. federal income tax law, which is subject to change, possibly with retroactive effect. This summary does not discuss all aspects of U.S. federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as original notes held by investors subject to special tax rules (e.g., financial institutions, insurance companies, broker-dealers, tax-exempt organizations (including private foundations) and partnerships and their partners), or to persons that hold the original notes as part of a straddle, hedge, conversion, constructive sale, or other integrated security transaction for U.S. federal income tax purposes or that have a functional currency other than the U.S. dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not address any state, local, or non-U.S. tax considerations. Each prospective investor is urged to consult his tax advisor regarding the U.S. federal, state, local, and non-U.S. income and other tax consequences of the acquisition, ownership, and disposition of the exchange notes.

An exchange of original notes for exchange notes pursuant to the exchange offer generally will not be a taxable event for U.S. federal income tax purposes. Consequently, a holder of original notes generally will not recognize gain or loss, for U.S. federal income tax purposes, as a result of exchanging original notes for exchange notes pursuant to the exchange offer. The holding period of the exchange notes generally will be the same as the holding period of the original notes and the tax basis in the exchange notes generally will be the same as the adjusted tax basis in the original notes as determined immediately before the exchange.

PLAN OF DISTRIBUTION

Each broker-dealer that receives exchange notes for its own account under the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of those notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer for resales of exchange notes received in exchange for original notes that had been acquired as a result of market-making or other trading activities. We have agreed that we will make available as promptly as practicable a copy of this prospectus, as it may be amended or supplemented, to any holder or any broker-dealer for use in connection with any such resale, together with an appropriate letter of transmittal and related documents. Any broker-dealers required to use this prospectus and any amendments or supplements to this prospectus for resales of the exchange notes must notify us of this fact by checking the box on the letter of transmittal requesting additional copies of these documents.

Notwithstanding the foregoing, we are entitled under the registration rights agreement to suspend the use of this prospectus by broker-dealers under specified circumstances. For example, we may suspend the use of this prospectus if:

- the SEC or any state securities authority requests an amendment or supplement to this prospectus or the related registration statement or additional information;
- the SEC or any state securities authority issues any stop order suspending the effectiveness of the registration statement or initiates proceedings for that purpose;
- we receive notification of the suspension of the qualification of the exchange notes for sale in any jurisdiction or the initiation or threatening of any proceeding for that purpose;
- the suspension is required by law; or
- an event occurs which makes any statement in this prospectus untrue in any material respect or which constitutes an omission to state a material fact in this prospectus.

In the event of such suspension, we will extend the period during which broker-dealers may use this prospectus by the number of days during the period from and including the date we give notice of such suspension to and including the date when such broker-dealers have received copies of a supplemented or amended prospectus or the date on which we give notice that the sale of the exchange notes may be resumed, whichever is earlier.

We will not receive any proceeds from any sale of exchange notes by broker-dealers. Exchange notes received by broker-dealers for their own account under the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on those notes or a combination of those methods, at market prices prevailing at the time of resale, at prices related to prevailing market prices or at negotiated prices. Any resales may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from the selling broker-dealer and/or the purchasers of the exchange notes. Any broker-dealer that resells exchange notes received by it for its own account under the exchange offer and any broker or dealer that participates in a distribution of the exchange notes may be deemed to be an underwriter within the meaning of the Securities Act and any profit on any resale of exchange notes and any commissions or concessions received by any of these persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of

the Securities Act.

We will not receive any proceeds from the issuance of exchange notes in the exchange offer. We have agreed to pay all expenses incidental to the exchange offer other than commissions and concessions of any broker or dealer and certain transfer taxes and will indemnify holders of the notes, including any broker-dealers, against certain liabilities, including certain liabilities under the Securities Act.

LEGAL MATTERS

Certain legal matters with respect to the validity of the issuance of the exchange notes will be passed upon for us by Maria C. Green, Esq. (or other senior general counsel as may be designated by us). Ms. Green, in her capacity as Deputy General Counsel and Assistant Secretary, is a participant in various of our employee benefit and incentive plans, including stock option plans, offered to employees. As of August 1, 2009, Ms. Green beneficially owns 8,699 shares of our common stock and has current exercisable options to purchase 41,000 shares of our common stock.

EXPERTS

The financial statements incorporated in this prospectus by reference as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, and the effectiveness of Illinois Tool Works Inc. s internal control over financial reporting as of December 31, 2008 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference. Such financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

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ILLINOIS TOOL WORKS INC.

Offer to Exchange

5.15% Notes due 2014
6.25% Notes due 2019
that have been registered under the Securities Act

for

5.15% Notes due 2014
6.25% Notes due 2019

PROSPECTUS

, 2009

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PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 20. Indemnification of Directors and Officers

Section 102(b) (7) of the Delaware General Corporation Law (the DGCL) permits a corporation, in its certificate of incorporation, to limit or eliminate the liability of directors to the corporation or its stockholders for monetary damages for breaches of fiduciary duty, except for liability (a) for any breach of the director s duty of loyalty to the corporation or its stockholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the DGCL, or (d) for any transaction from which the director derived an improper personal benefit. The provisions of Article Thirteenth of the Registrant s Restated Certificate of Incorporation eliminate the personal liability of directors of the Registrant to the extent set forth in the DGCL.

Under Section 145 of the DGCL, a corporation has the power to indemnify directors and officers against expenses (including attorneys fees actually and reasonably incurred), judgments, fines and settlements, in connection with any action, suit or proceeding (other than derivative actions), whether civil, criminal, administrative or investigative, if it is determined that such person acted in good faith and in a manner he or she reasonably believed to be in (or not opposed to) the best interests of the corporation and, in the case of a criminal action, had no reasonable cause to believe that his or her conduct was unlawful. In a derivative action brought by or in the right of the corporation, the DGCL permits indemnification of any such person if he or she acted in good faith and in a manner he or she reasonably believed to be in (or not opposed to) the best interests of the corporation, but no indemnification may be given where such person has been found to be liable to the corporation unless (and only to the extent that) a court determines that despite such finding of liability, such person is fairly and reasonably entitled to indemnification against such expenses which the court deems proper. Article V of the Registrant s By-Laws provides for indemnification of the Registrant s directors and officers to the fullest extent permitted by the DGCL. Article V further permits the Registrant to maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Registrant, or is or was serving at the request of the Registrant as a director, officer, employee or agent of another entity, against any liability asserted against such person and incurred by such person in any such capacity or arising out of his status as such, whether or not the Registrant would have the power to indemnify such person against such liability under the DGCL.

The Registrant s directors and officers are covered by insurance policies directly insuring them against certain liabilities, including certain liabilities arising under the Securities Act, which might be incurred by them in such capacities and against which they cannot be indemnified by the Registrant.

Item 21. Exhibits and Financial Schedules

See the Exhibit Index following the signature pages hereto.

Item 22. Undertakings

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) (§ 230.424(b) of this chapter) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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(d) The undersigned registrant hereby undertakes to respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11, or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(e) The undersigned registrant hereby undertakes to supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Village of Glenview, State of Illinois, on August 10, 2009.

ILLINOIS TOOL WORKS INC.

By: /s/ James H. Wooten, Jr.

Name: James H. Wooten, Jr.

Title: Senior Vice President, General Counsel & Corporate Secretary

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated on August 10, 2009.

Signature	Title
* David B. Speer	Chairman & Chief Executive Officer & Director (Principal Executive Officer)
/s/ Ronald D. Kropp Ronald D. Kropp	Senior Vice President & Chief Financial Officer (Principal Financial Officer)
/s/ Randall J. Scheuneman Randall J. Scheuneman	Vice President & Chief Accounting Officer (Principal Accounting Officer)
* William F. Aldinger	Director
* Marvin D. Brailsford	Director
* Susan Crown	Director
* Don H. Davis, Jr.	Director
*	Director

Robert C. McCormack

*	Director
Robert S. Morrison	
*	Director
James A. Skinner	

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Signature	Title
*	Director
Harold B. Smith	
*	Director
Pamela B. Strobel	

*By: /s/ Ronald D. Kropp

Ronald D. Kropp, as attorney-in-fact

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EXHIBIT INDEX

Exhibit No.	Description of Exhibit
3.1	Restated Certificate of Incorporation of Illinois Tool Works Inc., filed as Exhibit 3(a) to the Company s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 (Commission File No. 1-4797) and incorporated herein by reference.
3.2	By-laws of Illinois Tools Works Inc., amended and restated as of May 8, 2009, filed as Exhibit 3 to the Company s Current Report on Form 8-K dated May 12, 2009 and incorporated herein by reference.
4.1	Indenture between Illinois Tool Works Inc. and The First National Bank of Chicago, as Trustee, dated as of November 1, 1986, filed as Exhibit 4.1 to the Company s Registration Statement on Form S-3 filed on January 15, 1999 (Commission File No. 333-70691) and incorporated herein by reference.
4.2	First Supplemental Indenture between Illinois Tool Works Inc. and Harris Trust and Savings Bank, as Trustee, dated as of May 1, 1990, filed as Exhibit 4.2 to the Company s Registration Statement on Form S-3 filed on January 15, 1999 (Commission File No. 333-70691) and incorporated herein by reference.
4.3	Officers Certificate dated March 26, 2009 establishing the terms, and setting forth the forms, of the 5.15% Notes due 2014 and the 6.25% Notes due 2019 filed as Exhibit 4.3 to the Company s Form 8-K filed on March 27, 2009 (Commission File No. 1-4797) and incorporated herein by reference.
4.4	Registration Rights Agreement dated March 26, 2009, by and among the Company and HSBC Securities (USA) Inc. and Banc of America Securities LLC filed as Exhibit 4.4 to the Company s Form 8-K filed on March 27, 2009 (Commission File No. 1-4797) and incorporated herein by reference.
5.1**	Opinion of Maria C. Green, Esq.
12.1*	Computation of ratio of earnings to fixed charges
23.1*	Consent of Independent Registered Public Accounting Firm
23.2	Consent of Maria C. Green, Esq. (contained in opinion filed as Exhibit 5.1)
24.1	Powers of Attorney (contained on signature page)
25.1**	Statement of Eligibility on Form T-1 of The Bank of New York Mellon Trust Company, N.A., as Trustee under the Indenture relating to the exchange notes.
99.1**	Form of Letter of Transmittal
99.2**	Form of Notice of Guaranteed Delivery
99.3**	Form of Letter to DTC Participants
99.4**	Form of Letter to Clients
99.5**	Form of Instructions to Registered Holder from Beneficial Owner

* Filed herewith.

** Previously filed.

bsp; **Third Quarter**

	2003	2002
		(As Restated)*
Net loss as reported	$(0.3)	(53.7)
Deduct:		
Total compensation cost determined under fair value based method for all awards, net of tax	(2.9)	(4.0)
Pro forma net loss	$(3.2)	(57.7)
Loss per common share		
Basic as reported	$(0.04)	(0.64)
Basic *pro forma*	$(0.07)	(0.69)
Loss per common share		
Diluted as reported	$(0.04)	(0.64)
Diluted *pro forma*	$(0.07)	(0.69)

* Refer to Note 2, Restatements, for further discussion.

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(Unaudited; $ in millions except per share data)

	Nine Months Ended September 30,	
	2003	2002
		(As Restated)*
Net loss as reported	$(30.5)	(112.8)
Deduct:		
Total compensation cost determined under fair value based method for all awards, net of tax	(8.7)	(10.3)
Pro forma net loss	$(39.2)	(123.1)
Loss per common share		
Basic as reported	$(0.46)	(1.43)
Basic *pro forma*	$(0.56)	(1.56)
Loss per common share		
Diluted as reported	$(0.46)	(1.43)
Diluted *pro forma*	$(0.56)	(1.56)

* Refer to Note 2, Restatements, for further discussion.

5. *Special Items and Provisions*

Special items and provisions are unpredictable and atypical of the Company s operations in a given period. We believe consistent identification, disclosure and discussion of such items, both favorable and unfavorable, provide additional information to assess the quality of our performance and our earnings or losses. In addition, management measures the performance of its reportable segments excluding special items. This supplemental information is not a substitute for any U.S. generally accepted accounting principles measure and should be evaluated within the context of our U.S. GAAP results.

Note: Supplemental Data

The following schedule summarizes the special items and provisions for the quarter and nine months ended September 30, 2003:
(Unaudited; gains (losses) in millions except per share amounts)

	Third Quarter 2003		
Statement of Consolidated Operations Line Item	Pre-tax Earnings	After-tax Earnings	$/Share After-tax
Special items and provisions, net:			
PDMC			
Environmental provisions, net	$(5.0)	(4.8)	(0.05)
PDI			
Environmental provisions, net	0.4	0.4	
Corporate and Other			
Environmental provisions, net	(3.7)	(3.5)	(0.04)
Historic Cyprus Amax matter	(1.1)	(1.1)	(0.01)

	(4.8)	(4.6)	(0.05)
	$ (9.4)	(9.0)	(0.10)

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(Unaudited; gains (losses) in millions except per share amounts)

Statement of Consolidated Operations Line Item	Nine Months Ended September 30, 2003 Pre-tax Earnings	After-tax Earnings	$/Share After-tax
Special items and provisions, net:			
PDMC			
Environmental provisions, net	$ (5.5)	(5.2)	(0.06)
PDI			
Environmental provisions, net	0.4	0.4	
Termination of a foreign postretirement benefit plan	3.2	2.4	0.03
	3.6	2.8	0.03
Corporate and Other			
Environmental provisions, net	(7.1)	(6.8)	(0.07)
Environmental insurance recoveries, net	0.5	0.5	0.01
Historic Cyprus Amax matter	(1.1)	(1.1)	(0.01)
	(7.7)	(7.4)	(0.07)
	(9.6)	(9.8)	(0.10)
Miscellaneous income (expense), net:			
Gain on sale of cost investment	6.4	6.4	0.07
Cumulative effect of accounting change	9.7	8.4	0.09
	$ 6.5	5.0	0.06

In the 2003 third quarter, a special, net pre-tax loss of $9.4 million was recognized consisting of (i) an $8.3 million charge ($7.9 million after-tax) for environmental provisions (refer to Note 7, Environmental, and Reclamation and Closure Matters) and (ii) a $1.1 million charge (before and after taxes) for an historic Cyprus Amax matter.

In the 2003 second quarter, a special, net pre-tax gain of $4.3 million was recognized consisting of (i) a pre-tax gain of $6.4 million (before and after taxes) for the sale of a cost-basis wire and cable investment; (ii) a $2.6 million charge ($2.4 million after-tax) for environmental provisions (refer to Note 7, Environmental, and Reclamation and Closure Matters); and (iii) a $0.5 million net gain (before and after taxes) from recoveries associated with insurance settlements on historic environmental claims.

In the 2003 first quarter, a special, net pre-tax gain of $11.6 million was recognized consisting of (i) a pre-tax gain of $9.7 million ($8.4 million after-tax) for the cumulative effect of an accounting change (refer to Note 6, Accounting Standards, for further discussion); (ii) a $1.3 million charge (before and after taxes) for environmental provisions (refer to Note 7, Environmental, and Reclamation and Closure Matters); and (iii) a $3.2 million gain ($2.4 million after-tax) from the termination of a foreign postretirement benefit plan.

Note: Supplemental Data

The following schedule summarizes the special items and provisions for the quarter and nine months ended September 30, 2002:
(Unaudited; gains (losses) in millions except per share amounts)

Statement of Consolidated Operations Line Item	Third Quarter 2002		
	Pre-tax Earnings	After-tax Earnings	$/Share After-tax
Special items and provisions, net:			
PDMC -			
Environmental provisions, net	$ (2.5)	(2.5)	(0.03)
October 2001 restructuring:			
Reassessment of employee activities and take-or-pay contracts	4.4	4.4	0.05
Additional retirement benefits	(6.4)	(6.4)	(0.07)
Environmental insurance recoveries, net	(3.6)	(2.5)	(0.03)
	(8.1)	(7.0)	(0.08)
PDI -			
September 2002 restructuring programs	(23.0)	(22.2)	(0.25)
Environmental provisions, net*	0.3	0.3	
Reassessment of prior restructuring programs**	1.3	1.3	0.02
	(21.4)	(20.6)	(0.23)

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Statement of Consolidated Operations Line Item	Third Quarter 2002		
	Pre-tax Earnings	After-tax Earnings	$/Share After-tax
Corporate and Other -			
Environmental provisions, net	(0.5)	(2.9)	(0.03)
Environmental insurance recoveries, net	6.8	6.1	0.07
Historic Cyprus Amax lawsuit settlement		(0.6)	(0.01)
Historic Cyprus Amax arbitration award with regard to Plateau Mining		(0.5)	(0.01)
	6.3	2.1	0.02
	(23.2)	(25.5)	(0.29)
Early debt extinguishment costs	(31.3)	(26.6)	(0.30)
Taxes:			
Tax benefit for 2001 net operating loss carryback		28.1	0.32
Total	$ (54.5)	(24.0)	(0.27)

* Includes reassessment of $0.6 million for prior restructuring programs.

** Includes $(0.1) million related to an increase in equipment reserve, reflected in net property, plant and equipment.
(Unaudited; gains (losses) in millions except per share amounts)

Statement of Consolidated Operations Line Item	Nine Months Ended September 30, 2002		
	Pre-tax Earnings	After-tax Earnings	$/Share After-tax
Special items and provisions, net:			
PDMC -			
Environmental provisions, net	$ (2.5)	(2.5)	(0.03)
October 2001 restructuring:			
Reassessment of employee activities and take-or-pay contracts	4.4	4.4	0.05
Additional retirement benefits	(6.4)	(6.4)	(0.08)
Environmental insurance recoveries, net	8.5	7.2	0.09
Sale of non-core real estate	22.6	22.6	0.27
	26.6	25.3	0.30
PDI -			
September 2002 restructuring programs	(23.0)	(22.2)	(0.27)

Environmental provisions, net	0.3	0.3	
Reassessment of prior restructuring programs	1.3	1.3	0.02
	(21.4)	(20.6)	(0.25)
Corporate and Other -			
Environmental provisions, net	(12.6)	(12.6)	(0.15)
Environmental insurance recoveries, net	15.4	13.0	0.16
Historic Cyprus Amax lawsuit settlement	(11.2)	(9.5)	(0.12)
Historic Cyprus Amax arbitration award with regard to Plateau Mining	(46.5)	(45.0)	(0.54)
	(54.9)	(54.1)	(0.65)
	(49.7)	(49.4)	(0.60)
Early debt extinguishment cost	(31.3)	(26.6)	(0.32)
Miscellaneous income and expense, net:			
Cost investment write-downs	(1.2)	(1.2)	(0.01)
Benefit (provision) for taxes on income:			
Release of taxes provided with regard to Plateau Mining		13.0	0.16
Tax benefit for 2001 net operating loss carryback		66.6	0.80
		79.6	0.96
Cumulative effect of accounting change	(33.0)	(22.9)	(0.28)
Total	$(115.2)	(20.5)	(0.25)

In the 2002 third quarter, a special, net pre-tax loss of $54.5 million was recognized consisting of (i) a $23.0 million pre-tax charge ($22.2 million after-tax) for asset impairments and termination benefits associated with the temporary closure of two U.S. wire and cable plants and the consolidation of certain wire and cable operations; (ii) a $0.7 million net charge (before and after taxes) for the reassessment of prior restructuring programs; (iii) a $2.7 million pre-tax charge for environmental provisions; (iv) a $31.3 million charge ($26.6 million after-tax) for early debt extinguishment costs; and (v) a $3.2 million pre-tax gain, net of fees and expenses, from recoveries associated with insurance settlements on historic environmental claims. In addition, the 2002 third quarter included a net tax benefit of $25.5 million consisting of a special current tax benefit of $28.1 million associated with the 2001 net operating losses resulting from recent U.S. tax legislation, partially offset by year-to-date adjustments ($2.6 million) reflecting refinements in forecast estimates of U.S. net operating loss carrybacks for 2002 primarily associated with environmental provisions (refer to Note 10, Benefit (Provision) for Taxes on Income).

In the 2002 second quarter, a special, net pre-tax loss of $31.0 million was recognized consisting of (i) pre-tax charges of $46.5 million ($44.5 million after-tax) associated with an award made in a binding arbitration proceeding filed against Cyprus Amax Minerals Company (Cyprus Amax) by Plateau Mining Corporation (a former subsidiary of Cyprus Amax); (ii) an $11.2 million charge including expenses ($8.9 million after-tax) for the settlement of a lawsuit related to Amax Oil & Gas acquired with the Cyprus Amax purchase; (iii) a $0.7 million pre-tax loss on the write-off of a cost-basis investment; (iv) a $22.6 million gain (before and after taxes) on the sale of a non-core parcel of real estate in New Mexico; and (v) a $4.8 million net gain ($3.8 million after-tax) from recoveries associated with insurance settlements on historic environmental claims. The taxes associated with special items were a net benefit of $18.3 million, including release of deferred taxes previously provided ($13.0 million) and year-to-date adjustments ($2.0 million) reflecting refinements in forecast estimates of U.S. net operating loss carrybacks prior to 2002 (refer to Note 10, Benefit (Provision) for Taxes on Income).

In the 2002 first quarter, a special, net pre-tax loss of $29.7 million was recognized consisting of (i) pre-tax charges of $33.0 million ($22.9 million after-tax) for the cumulative effect of an accounting change (refer to Note 6, Accounting Standards, for further discussion); (ii) a $12.1 million charge (before and after taxes) for environmental provisions; (iii) a $0.5 million ($0.4 million after-tax) write-off of a cost-basis investment; and (iv) a $15.9 million gain ($13.1 million after-tax), net of fees and expenses, from recoveries associated with insurance settlements reached with companies on historic environmental claims. In addition, the 2002 first quarter included a tax benefit of $38.5 million for net operating loss carryback prior to 2002 resulting from recent U.S. tax legislation (refer to Note 10, Benefit (Provision) for Taxes on Income).

In September 2002, we announced the temporary closure of two U.S. wire and cable plants and other actions to improve efficiencies and consolidate certain wire and cable operations. Refer to the Company s Form 10-K for the year ended December 31, 2002, for additional discussion.

The following schedules present a roll-forward from December 31, 2002, of the liabilities incurred in connection with the September 2002 restructuring program, which were reflected as current liabilities in our consolidated balance sheet:

(Unaudited; $ in millions)

	12/31/02	Payments	9/30/03
PDI			
Wire and Cable			
Employee severance	$ 1.3	(1.1)	0.2

Note: There were no payments in the 2003 third quarter.

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(Unaudited; $ in millions)

	2002 Provision*	Payments	9/30/02
PDI			
Wire and Cable			
Employee severance	$ 3.3	(0.7)	2.6

* Provision excluded $2.8 million of pension and other postretirement charges included in long-term liabilities.

In the second quarter of 2001, we announced a restructuring of our professional, administrative and operational support functions, as well as various other operational improvement initiatives. Also in the fourth quarter of 2001, we announced a series of actions to address the then-current economic environment, including changes in copper operations that led us to curtail approximately 220,000 metric tons of copper production annually (including our partner s share) and to curtail 54,000 metric tons of North American carbon black production annually in 2002. Additionally, in the second quarter of 2000 and 1999, we announced plans to reduce operating costs and restructure operations at our PDMC division and our Wire and Cable segment. Refer to the Company s Form 10-K for the year ended December 31, 2002, for additional discussion.

The following schedules present a roll-forward from December 31, 2002 and 2001, of the liabilities incurred in connection with the 2001 restructuring programs, which were reflected as current liabilities in our consolidated balance sheet:

(Unaudited; $ in millions)

	12/31/02	Payments	9/30/03
PDMC			
U.S. Mines			
Morenci			
Employee severance	$0.1	(0.1)	—
Bagdad/Sierrita			
Mothballing/ take-or-pay contracts	0.2	(0.2)	—
Miami/Bisbee			
Mothballing/ take-or-pay contracts	0.1	(0.1)	—
Chino/Cobre			
Employee severance	0.1	(0.1)	—
	0.5	(0.5)	—
Manufacturing and Sales			
Employee severance	0.1	(0.1)	—
	$0.6	(0.6)	—

Note: All payments were made in the 2003 first quarter.

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(Unaudited; $ in millions)

	12/31/01	Reassess-ments	Pay-ments	9/30/02
PDMC				
U.S. Mines				
Morenci				
Employee severance	$ 0.3	0.1	(0.3)	0.1
Bagdad/Sierrita				
Employee severance	3.5	(0.8)	(2.2)	0.5
Mothballing/ take-or-pay contracts	3.1	(0.8)	(2.1)	0.2
	6.6	(1.6)	(4.3)	0.7
Miami/Bisbee				
Employee severance	1.8	(0.5)	(1.1)	0.2
Mothballing/ take-or-pay contracts	1.0	(0.4)	(0.5)	0.1
	2.8	(0.9)	(1.6)	0.3
Chino/Cobre				
Employee severance	1.2	(0.4)	(0.6)	0.2
Mothballing/ take-or-pay contracts	0.2		(0.2)	
	1.4	(0.4)	(0.8)	0.2
Tyrone				
Employee severance	0.2		(0.2)	
	11.3	(2.8)	(7.2)	1.3
Manufacturing and Sales				
Employee severance	1.4	(0.2)	(0.7)	0.5
Mothballing/ take-or-pay contracts	4.1	(1.2)	(2.7)	0.2
	5.5	(1.4)	(3.4)	0.7
Primary Molybdenum				
Employee severance	0.1		(0.1)	
Other Mining				
Employee severance	0.8	(0.2)	(0.6)	
	17.7	(4.4)	(11.3)	2.0
PDI				
Specialty Chemicals				

Disposal and dismantling	0.5	(0.4)	(0.1)	
Employee severance	0.8	(0.1)	(0.6)	0.1
	1.3	(0.5)	(0.7)	0.1
	$ 19.0	(4.9)	(12.0)	2.1

Note: In the 2002 third quarter, reassessments were $(4.9) million, including a reclassification of $(0.1) million to long-term liabilities, and payments were $(2.6) million.

PDMC s reassessments of $4.4 million comprised (i) $2.0 million for an adjustment to employee termination benefits and (ii) $2.4 million related to savings from renegotiated contracts or from reduced penalties on demand contracts. PDMC s reassessment of $2.0 million of employee termination benefits was made because subsequently, as the plan was being implemented, it was determined that certain employees identified in the restructuring plan would be retained to fill open positions or would not be eligible for supplemental unemployment as originally anticipated. In addition, a $6.4 million charge was recognized for additional pension-related benefits, which are included in long-term liabilities, for employees at our Chino, Miami, Sierrita and Bagdad operations as these operations will remain curtailed beyond one year from their January 2002 curtailment.

PDI s Specialty Chemicals segment reassessment comprised (i) a reclassification of $0.1 million to long-term pension benefits and (ii) $0.4 million for an adjustment to disposal and dismantling charges for the El Dorado plant facility.

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The following schedules present a roll-forward from December 31, 2002 and 2001, of the liabilities incurred in connection with the June 2000 restructuring program, which were reflected as current liabilities in our consolidated balance sheet:
(Unaudited; $ in millions)

	12/31/02	Payments	9/30/03
PDI			
Wire and Cable			
Plant removal and dismantling	$0.5		0.5

(Unaudited; $ in millions)

	12/31/01	Reassess-ments	Pay-ments	9/30/02
PDI				
Wire and Cable				
Plant removal and dismantling	$1.9	(1.3)	(0.1)	0.5

Note: In the 2002 third quarter, reassessments were $(0.7) million, including currency translation adjustments of $(0.2) million, and payments were $(0.1) million.

PDI s Wire and Cable segment reassessment comprised (i) a $0.5 million adjustment to plant dismantling charges related to wire and cable plant closures in Venezuela and (ii) an $0.8 million non-cash deduction related to the devaluation of Venezuelan currency.

The following schedules present a roll-forward from December 31, 2002 and 2001, of the liabilities incurred in connection with the June 1999 restructuring program, which were reflected as current liabilities in our consolidated balance sheet:
(Unaudited; $ in millions)

	12/31/02	Payments	9/30/03
PDMC			
Other Mining			
Mothballing/take-or-pay contracts	$0.6		0.6
PDI			
Wire and Cable			
Take-or-pay contracts	1.0		1.0
	$1.6		1.6

(Unaudited; $ in millions)

Reassess- Pay-

	12/31/01	ments	ments	9/30/02
PDMC				
Other Mining				
Employee severance	$ 0.2	(0.1)	(0.1)	
Mothballing/take-or-pay contracts	1.4		(0.7)	0.7
	1.6	(0.1)	(0.8)	0.7
PDI				
Specialty Chemicals				
Disposal and dismantling	0.3	(0.3)		
Environmental	0.6	(0.6)		
	0.9	(0.9)		
Wire and Cable				
Take-or-pay contracts	1.1	(0.1)		1.0
Plant removal and dismantling	0.2	(0.2)		
	1.3	(0.3)		1.0
	2.2	(1.2)		1.0
	$ 3.8	(1.3)	(0.8)	1.7

Note: In the 2002 third quarter, reassessments were $(1.3) million, including a reclassification of $(0.1) million to long-term liabilities, and payments were $(0.1) million.

PDMC s reassessment included a $0.1 million reclassification to long-term liabilities related to pension and other postretirement benefits.

PDI s Specialty Chemicals segment reassessment related to a Philippine plant for (i) a $0.3 million adjustment to disposal and dismantling charges and (ii) $0.6 million for environmental costs that were relieved as the property was sold during the period.

PDI s Wire and Cable segment reassessment comprised (i) a $0.1 million adjustment related to a lease contract and (ii) a $0.2 million adjustment related to dismantling charges at a Venezuelan plant.

6. *Accounting Standards*

On January 1, 2003, we adopted SFAS No. 143, Accounting for Asset Retirement Obligations. With the adoption of this Statement, we recognize asset retirement obligations (AROs) as liabilities when incurred, with the initial measurement at fair value. These liabilities will be accreted to full value over time through charges to income. In addition, an asset retirement cost is capitalized as part of the related asset s carrying value and will subsequently be depreciated over the asset s useful life. Our AROs consist primarily of costs associated with mine reclamation and closure activities. These activities, which tend to be site specific, generally include costs for earthwork, revegetation, water treatment and demolition. Upon adoption, we recorded an increase to our closure and reclamation reserve of approximately $2.5 million, net, an increase to our mining properties assets and intangibles of approximately $12.2 million and a cumulative gain of $8.4 million, net of deferred income taxes. For the quarter and nine months ended September 30, 2003, the effect of adopting SFAS No. 143 decreased loss before cumulative effect of accounting change by approximately $3.6 million, or 4 cents per common share, and $14.5 million, or 16 cents per common share, respectively.

The following table summarizes the balance sheet impact associated with the adoption of SFAS No. 143:
(Unaudited; $ in millions)

	December 31, 2002 As Reported*	SFAS No. 143 Adoption Impact	January 1, 2003 After Adoption
Mining properties	$ 907.4	63.8**	971.2
Mining properties accumulated depreciation	(197.1)	(53.2)	(250.3)
Net mining properties assets	$ 710.3	10.6	720.9
Intangibles	$ 439.5	3.6**	443.1
Intangibles accumulated amortization	(93.6)	(2.0)	(95.6)
Net intangibles	$ 345.9	1.6	347.5
Asset retirement obligation liability	$ 138.6	10.4***	149.0

* Reflects the reclassification of South American mining concessions from property, plant and equipment, net to intangible assets (refer to Note 3, Reclassification of Intangible Assets, for further discussion).

** Amounts include $84.0 million and $7.5 million of additions related to recording an asset retirement cost, offset by $20.2 million and $3.9 million to reclassify amounts recognized as ore reserves in purchase accounting.

*** Amount consists of $2.5 million of liabilities recognized at adoption and $7.9 million of reclassifications related to closure obligations from other liabilities at adoption.

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The *pro forma* effects of the application of SFAS No. 143 as if this Statement had been adopted on January 1, 2002, are presented below: (Unaudited; $ in millions except per share data)

	Third Quarter 2002
Loss before cumulative effect of accounting change as reported	$(53.7)
Reduced cost of products sold, net of tax	4.9
Additional depreciation expense, net of tax benefit	(0.5)
Pro forma loss before cumulative effect of accounting change	$(49.3)
Loss per common share before cumulative effect of accounting change:	
Basic and diluted as reported	$(0.64)
Basic and diluted *pro forma*	$(0.59)
Net loss as reported	$(53.7)
Pro forma net loss	$(49.3)
Loss per common share:	
Basic and diluted as reported	$(0.64)
Basic and diluted *pro forma*	$(0.59)

(Unaudited; $ in millions except per share data)

	Nine Months Ended September 30,	
	2003	2002
Loss before cumulative effect of accounting change as reported	$(38.9)	(89.9)
Reduced cost of products sold, net of tax		14.2
Additional depreciation expense, net of tax benefit		(1.4)
Pro forma loss before cumulative effect of accounting change	$(38.9)	(77.1)
Loss per common share before cumulative effect of accounting change:		
Basic and diluted as reported	$(0.55)	(1.15)
Basic and diluted *pro forma*	$(0.55)	(1.00)
Net loss as reported	$(30.5)	(112.8)
Pro forma net loss	$(38.9)	(100.0)
Loss per common share:		
Basic and diluted as reported	$(0.46)	(1.43)
Basic and diluted *pro forma*	$(0.55)	(1.28)

The *pro forma* asset retirement obligation liability balances as if SFAS No. 143 had been adopted on January 1, 2002, are as follows: (Unaudited; $ in millions)

Pro forma asset retirement obligation liability	January 1, 2002	$ 138.1
Pro forma asset retirement obligation liability	December 31, 2002	$ 149.0

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill and intangible assets that have indefinite useful lives are not amortized, but rather tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. Upon completion of the transitional impairment tests, the fair value of three of the Company s international wire and cable reporting units was determined to be less than the related carrying amount. The resulting impairment loss recognized upon adoption of SFAS No. 142 in the first quarter of 2002 was $33.0 million, pre-tax ($22.9 million after-tax) and was recognized as a cumulative effect of a change in accounting principle.

Subsequently, the Company completed its annual goodwill impairment test as of December 31, 2002, with no additional impairments. The Company will continue to test its goodwill annually as of December 31, unless events occur or circumstances change between annual tests that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The changes in the carrying amount of goodwill for the year ended December 31, 2002, and nine months ended September 30, 2003, were as follows:

(Unaudited; $ in millions)

	Specialty Chemicals Segment	Wire and Cable Segment	Total
Balance as of December 31, 2001	$ 88.5	54.6	143.1
Goodwill acquired during period			
Impairment losses upon adoption of SFAS No. 142		(33.0)	(33.0)
Goodwill included in the disposal of a business unit			
Foreign currency translation adjustments	(19.4)		(19.4)
Balance as of December 31, 2002	69.1	21.6	90.7
Goodwill acquired during period			
Impairment losses			
Goodwill included in the disposal of a business unit			
Foreign currency translation adjustments	8.3		8.3
Balance as of September 30, 2003	$ 77.4	21.6	99.0

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. Under SFAS No. 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. This Statement eliminates SFAS No. 4 and, thus, the exception to applying APB No. 30 to all gains and losses related to extinguishments of debt. As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB No. 30. Applying the provisions of APB No. 30 will distinguish transactions that are part of an entity s recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. Under SFAS No. 13, the required accounting treatment of certain lease modifications that have economic effects similar to sale-leaseback transactions was inconsistent with the required accounting treatment for sale-leaseback transactions. This Statement amends SFAS No. 13 to require that those lease modifications be accounted for in the same manner as sale-leaseback transactions. This Statement was adopted by the Company on January 1, 2003. As a result of this Statement being adopted, we have reclassified the 2002 third quarter extraordinary item for debt extinguishment costs to a recurring item.

In June 2002, FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The principal difference between this Statement and EITF 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability was recognized at the date of an entity s commitment to an exit plan. This Statement is effective for exit or disposal activities initiated after December 31, 2002.

In November 2002, FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires that upon issuance of certain guarantees, a guarantor must recognize a liability for the fair value of an obligation assumed under the guarantee. FIN 45 also requires significant new disclosures by guarantors, in both interim and annual financial statements, about obligations associated with guarantees issued. FIN 45 disclosure requirements were adopted for our year ended December 31, 2002; the initial recognition and measurement provisions were adopted on a prospective basis to guarantees issued or modified after December 31, 2002. There were no guarantees issued or modified in the first

nine months of 2003 that required fair value recognition as a liability that had a material impact on our financial statements.

In December 2002, FASB issued SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure an Amendment of SFAS No. 123. The Statement amends SFAS No. 123, Accounting for Stock-Based Compensation, and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. This Statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of stock-based employee compensation and the effect of the method used on reported results. This Statement was effective for fiscal years ending after December 15, 2002. The Company adopted this Statement in regards to disclosure provisions for the year ended December 31, 2002, and has provided the interim information in Note 4, Stock Compensation.

In January 2003, FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 (FIN 46) to clarify when a company should consolidate in its financial statements the assets, liabilities and activities of a variable interest entity. FIN 46 provides general guidance as to the definition of a variable interest entity and requires a variable interest entity to be consolidated if a company absorbs the majority of the variable interest entity s expected losses, or is entitled to receive a majority of the variable interest entity s residual returns, or both. The adoption of FIN 46 did not have a material impact on the Company s financial reporting and disclosures.

In April 2003, FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, this Statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. This Statement is generally effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on the Company s financial reporting and disclosures.

In May 2003, FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 changes the accounting for certain financial instruments that, under previous guidance, could be classified as equity or mezzanine equity, by now requiring those instruments to be classified as liabilities (or assets in some circumstances) in the statement of financial position. Further, SFAS No. 150 requires disclosure regarding the terms of those instruments and settlement alternatives. The guidance in SFAS No. 150 generally is effective for all financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. We have evaluated SFAS No. 150 and determined that it does not have an impact on our financial reporting and disclosures.

7. *Environmental, and Reclamation and Closure Matters*

As of December 31, 2002, we had a reserve balance of $305.9 million for estimated future costs associated with environmental matters at closed facilities and closed portions of certain operating facilities. During the first nine months of 2003, we had a $5.7 million net increase in the reserve estimate ($24.4 million of additions, $12.2 of reductions and a $6.5 million reclassification to asset retirement obligation liability) and $14.3 million of spending against the reserve. As of September 30, 2003, the reserve balance was $297.3 million.

In the 2003 third quarter, we had an $8.3 million net increase in the environmental reserve estimate. The increase comprised $20.5 million of additions and $12.2 million of reductions. The two sites with significant changes were American Zinc

and Chemical site, with a decrease of $10.4 million, and Cyprus Foote Mineral Company, with an increase of $5.9 million.

American Zinc and Chemical Site

In June 1999, Cyprus Amax, now a subsidiary of Phelps Dodge, received an information request from the Pennsylvania Department of Environmental Protection (PADEP) regarding the American Zinc and Chemical Company site in Langeloth, Pennsylvania. The American Zinc and Chemical Company site consists primarily of a former zinc smelter facility operated until 1947 by the former American Zinc and Chemical Company and includes some or all of a contiguous, currently operating molybdenum refinery formerly owned by the Climax Molybdenum Company, which is indirectly owned by Cyprus Amax Minerals Company. The American Zinc and Chemical Company, which was dissolved in 1951, also was a subsidiary of a corporate predecessor to Cyprus Amax.

In discussions with Cyprus Amax in 2001 and early 2002, PADEP informally indicated that it expects Cyprus Amax to investigate and remediate negative environmental conditions at the site, which predominate at and about the former zinc smelter facility. The Company s Form 10-K for the year ended December 31, 2002, indicated that preliminary evaluations of the nature and extent of conditions at the site may range from $18 million to $52 million. The Company reserved $20 million for possible remediation work at this site. Recently, an engineering evaluation and reasonable-cost analysis was performed to estimate the cost and feasibility of implementing the most likely remedial action that PADEP would accept based on effectiveness and implementability. To check the validity of the analysis, estimated site remedial costs were compared with costs from other environmental sites that have implemented similar remedial actions. In addition, a reasonable-cost analysis was performed on other possible remedial alternatives so a range of costs could be established for consideration. This analysis indicates that remediation of the site may range from $9 million to $43 million, with the most likely point of the range to be about $9 million. The most likely remedial action would include an additional site investigation study, implementation of stormwater controls, constructing an engineered cap over 60 acres of slag and process waste, and long-term monitoring and operations and maintenance of the site. While the Company has reduced its reserve to $9 million for possible remediation work at the site, Cyprus Amax continues to believe and will continue to indicate to PADEP that the Company is not liable for the actions of its former subsidiary, American Zinc and Chemical Company, under existing federal and state environmental laws. To date, PADEP has not responded to Cyprus Amax s assertion that it is not liable.

Cyprus Foote Mineral Company Site

A former subsidiary of Cyprus Amax, the Cyprus Foote Mineral Company, owned and operated a ferroalloy facility near Steubenville, Ohio, from 1958 to 1973. In 1973, Cyprus Foote sold the facility to a third party, which continued to own and operate the facility until 1982. Since 1982, the Steubenville, Ohio, ferroalloy facility has lain dormant, being owned by various parties. From 1992 to 1997, both the U.S. Environmental Protection Agency (EPA) and the Ohio Environmental Protection Agency (OEPA) conducted environmental site inspections of the Steubenville facility. In 1998, Cyprus Amax sold Cyprus Foote to Chemetall GmbH, which subsequently renamed Cyprus Foote the Chemetall Foote Corporation. In connection with this transaction, Cyprus Amax indemnified Chemetall for certain environmental liabilities, which potentially include liabilities of Cyprus Foote at the facility.

In 1999, Cyprus Foote and other parties were issued a Notice of Violation (NOV) from OEPA for the open dumping of waste materials and releasing pollution into the waters of the state. On behalf of Cyprus Foote, Cyprus Amax responded, urging that OEPA evaluate the post-1973 owners and operators of the facility for their responsibility and ability to pay for remediation. OEPA replied that it would not consider Cyprus Foote out of compliance with state law until the agency investigated the ability to pay of the post-1973 owners and operators. In 2002, OEPA issued Cyprus Foote another NOV, alleging similar violations as the 1999 NOV. In subsequent discussions, OEPA indicated

that it believes the post-1973 owners and operators are insolvent and that OEPA is now looking to Cyprus Foote to correct the environmental violations at the site. A meeting between OEPA and Cyprus Amax, on behalf of Cyprus Foote, has yet to be scheduled by OEPA to discuss next steps in addressing the agency s regulatory concerns.

In 2002, the Company estimated the reserve range to be from $1 million to $17 million. The Company reserved $1 million as there was no point in the range more likely than any other. However, because of observations during the most recent site visit and Cyprus Amax s knowledge of characteristics of other ferrochromium slag, an engineering evaluation and reasonable-cost analysis was performed to estimate the cost and feasibility of implementing the most likely remedial action that OEPA would accept, based on effectiveness and implementability. To check the validity of the analysis, estimated site remedial costs were then compared with costs from other environmental sites that have implemented similar remedial actions. In addition, a reasonable-cost analysis was performed on other possible remedial alternatives so a range of cost could be developed for consideration. The overall analysis indicates that remediation of the Steubenville site may range from $7 million to $18 million, with the most likely point of the range to be $7 million. The Company has, therefore, increased its reserve to $7 million for the site. The most likely remedial action would include a site investigation study, implementation of stormwater controls, covering approximately 40 acres with an engineered cap, and long-term monitoring and operations and maintenance of the site.

The sites for which Phelps Dodge has received a notice of potential liability or an information request that currently are considered to be significant are the Pinal Creek site near Miami, Arizona; the Laurel Hill site at Maspeth, New York; and the Cyprus Tohono site near Casa Grande, Arizona. At September 30, 2003, the cost range for all reservable remediation sites was estimated to be from $251 million to $588 million of which approximately $297 million has been reserved.

Phelps Dodge has a number of sites that are not the subject of an environmental reserve because it is not probable that a successful claim will be made against the Company for those sites, but for which there is a reasonably possible likelihood of an environmental remediation liability. As of September 30, 2003, the cost range for reasonably possible outcomes for all such sites was estimated to be from $3 million to $17 million. The liabilities arising from potential environmental obligations that have not been reserved at this time may be material to the operating results of a single quarter or year in the future. Management, however, believes the liability arising from potential environmental obligations is not likely to have a material adverse effect on the Company s liquidity or financial position.

On January 1, 2003, we adopted SFAS No. 143 (refer to Note 6, Accounting Standards, for further discussion). The following table summarizes our asset retirement obligation liability as of September 30, 2003:

(Unaudited; $ in millions)

	Third Quarter 2003	Nine Months Ended September 30, 2003
Beginning balance	$177.1	138.6
Liability recorded upon adoption of SFAS No. 143		10.4
New liabilities during the period		0.6
Accretion expense	3.9	10.8
Payments	(0.4)	(1.2)
Revisions to cash flow estimates	0.3	21.6
Foreign currency translation adjustments		0.1
Ending balance	$180.9	180.9

During the 2003 second quarter, we revised our cash flow estimates ($21.3 million discounted) for the Chino and Tyrone mines based on an agreement with NMED on the cost estimate for Chino reached in April 2003 and preliminary cost estimate for Tyrone identified in May 2003 by NMED for the financial assurance requirements as part of the closure plans related to the operations at Chino, Cobre and Tyrone (refer to Note 8, Contingen-

cies, for further discussion). The effect of this change in estimate did not have a material impact on our results of operations for the quarter and nine months ended September 30, 2003.

We have estimated our share of the total cost of asset retirement obligations at approximately $1.1 billion (unescalated, undiscounted and on a third-party cost basis), leaving approximately $909 million remaining to be accreted over time. These aggregate costs may increase or decrease materially in the future as a result of changes in regulations, technology, mine plans or other factors. Asset retirement obligation activities and expenditures generally are made over an extended period of time commencing near the end of the mine life.

8. Contingencies

Significant New Mexico Closure and Reclamation Programs

Mining and smelting operations with leaching, tailing ponds, surface impoundments and other discharging facilities in New Mexico are subject to regulation under the New Mexico Water Quality Act and the Water Quality Control Commission (WQCC) Regulations. The Chino, Cobre and Tyrone mines and the Hidalgo smelter each have obtained multiple discharge permits for their operations, which specify operational, monitoring and notification requirements. These permits are issued for five-year terms and require renewal following the end of each permit term. The WQCC Regulations authorize the New Mexico Environment Department (NMED), which administers the discharge permit program, to require the submission of closure plans showing how applicable discharge permit requirements will be met following closure. Under certain circumstances, NMED also may require submission and approval of abatement plans to address the exceedance of applicable water quality standards.

Further, Chino, Cobre, Tyrone and Hidalgo must submit closure plans for their operations. Hidalgo has an approved closure plan under its discharge permit. The three mines have submitted closure plans, which have been combined with closeout plans under the New Mexico Mining Act (NMMA), as discussed below. The proposed closure plans currently are subject to approval by NMED as part of separate discharge permits for closure for each of the three operations that would supplement the existing discharge permits (hereinafter referred to as closure permits). The proposed closure permits contain a number of permit conditions that would modify the proposed closure plans. Chino Mines Company and NMED reached agreement in December 2001 on proposed closure permit conditions presented at a public hearing in February 2002. On January 23, 2003, NMED s hearing officer issued a decision approving the closure permit as proposed by NMED and Chino, with minor changes. NMED issued a permit consistent with the hearing officer s decision on February 24, 2003. An appeal has been filed by a local environmental group, which Chino has moved to dismiss on procedural grounds. Phelps Dodge Tyrone, Inc. and NMED were unable to reach agreement on permit terms before a public hearing held in May 2002, and presented competing permit proposals. Other parties who participated in the public hearing presented their own proposals. On March 7, 2003, Tyrone received the hearing officer s decision on its permit, which generally adopted NMED s proposal. On April 2, 2003, Tyrone filed an appeal of the hearing officer s decision with the WQCC. NMED issued a permit in accordance with the hearing officer s decision on April 8, 2003, which Tyrone also has appealed. A hearing on Tyrone s appeal has been set before the WQCC. Cobre Mining Company and NMED also have not reached agreement on the terms of a closure permit. The closure permit for Cobre Mining Company does not require a public hearing and may be issued by NMED at any time.

Chino, Cobre and Tyrone also are subject to permit requirements under NMMA, which was passed in 1993. Following adoption of the New Mexico Mining Act Rules (NMMAR) in 1994, Chino, Cobre and Tyrone received initial permits as existing mining operations under NMMAR in 1997. These permits require revisions to incorporate approved closeout plans, which consist of plans for reclamation of the mining operations to achieve a self-sustaining ecosystem or an approved

post-mining land use following cessation of operations at a mine. Existing mining operations may seek a waiver of these reclamation standards for open pits and waste units based upon a demonstration that achieving these standards is technically or economically infeasible or environmentally unsound, as long as measures will be taken to meet air and water quality standards following closure.

NMMAR originally required approval of a closeout plan for an existing mining operation by December 31, 1999, based upon an extension granted by the Director of the Mining and Minerals Division (MMD). NMMAR subsequently was amended to extend the deadline for closeout plan approval until December 31, 2001, and later to October 1, 2002. NMMAR contains a requirement that NMED must provide MMD with a determination that a closeout plan meets applicable environmental standards, including air and water quality standards, before MMD can approve the closeout plan. NMED s policy is to issue this determination after it has issued closure permits for the facility that submits the closeout plan. In early 2001, Chino, Cobre and Tyrone submitted comprehensive closure/closeout plans (CCPs) to both NMED and MMD intended to address the requirements of both the WQCC Regulations and NMMAR. Approval of the CCPs under NMMAR would require the granting of waivers by MMD as authorized under NMMAR. The CCPs were the subject of the public hearings before NMED for Chino and Tyrone, as discussed above.

As of October 1, 2002, NMED had not issued closure permits for Chino, Cobre or Tyrone. Consequently, as of October 1, 2002, MMD had not approved closeout permits for these three mines. MMD issued Notices of Violation (NOVs) to Chino, Cobre and Tyrone because the three mines did not obtain approved closeout plans by the October 1, 2002, deadline. The NOVs were modified by the Mining Commission following a public hearing to set new deadlines for closeout plan approval tied to NMED permit actions. Based on NMED s permit actions, closeout plan approval under the Mining Commission s Order for Chino was due by September 24, 2003, but was extended by the MMD Director to November 24, 2003. The closeout plan approval date for Tyrone is April 8, 2004. The closeout plan approval deadline for Cobre will be nine months from the date of NMED s permit issuance, which is currently pending.

NMMAR contains specific requirements regarding financial assurance that must be provided to MMD to assure that sufficient funds would be available to MMD to carry out the closeout plan in the event of a default by the permittee. NMED also may require financial assurance under the WQCC Regulations. The financial assurance requirements are based upon the net present value of estimated costs to carry out the requirements of the closure permit and the approved closeout plan, assuming the state would hire a third-party contractor to conduct the work. Actual reclamation costs may differ significantly from the costs estimated under the permits due to advances in technology and reclamation techniques and opportunities to prepare each site for more efficient reclamation through careful development of the site over time. Consequently, the estimated costs under the permits are higher than the cost the Company would be expected to incur if the Company performed the work.

The CCPs submitted in early 2001 contained cost estimates of approximately $100 million for Chino, $121 million for Tyrone, and $9 million for Cobre, based upon unescalated and undiscounted capital and operating costs over a 30-year operating period. The closure permit negotiated by NMED and Chino Mines Company and approved by the NMED hearing officer has an estimated cost of approximately $394 million, based upon third-party unescalated and undiscounted capital and operating costs over a 100-year operating period, including the cost of technical studies required under the permit. The Company s two-thirds share of NMED s $394 million estimate is approximately $263 million and our joint venture partner s cost share is approximately $131 million. We estimate total costs for Chino Mines Company to achieve the closure standards required by NMED to be approximately $287 million (100 percent basis); that estimate is approximately one-third lower than the financial assurance cost estimate as a result of the Company s historical cost advantages, savings

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from the use of the Company s own personnel and equipment versus third-party contract costs, and opportunities to prepare the site for more efficient reclamation. The financial assurance cost estimate includes approximately $10 million (100 percent basis) of costs the Company has recognized in environmental reserves. The Company s two-thirds share of these costs is approximately $191 million and our joint venture partner s cost share is approximately $96 million. At September 30, 2003, and December 31, 2002, we had accrued approximately $18 million and $8 million, respectively, (two-thirds basis) for reclamation at Chino. The NMED cost estimate for Chino is subject to further review, and possible adjustment, by MMD under NMMAR.

NMED estimated the cost to carry out the requirements of its proposed closure permits for Tyrone at approximately $440 million, without discounting or escalation, under NMED s proposal at the May 2002 hearing; Tyrone estimated the cost of its proposal at approximately $328 million, without discounting or escalation over a 100-year operating period. NMED has not yet supplied its proposed cost estimate for Cobre. The proposed terms of the closure permits would require additional studies over the five-year term of the permits to refine the closure plan. The plan requirements and cost estimates may increase or decrease based upon the results of the studies and other factors, including changes in technology, completion of some closure and reclamation work, and inflation.

Based upon NMED s undiscounted financial assurance cost estimates for the Tyrone plan of approximately $440 million, and considering the same cost advantages as indicated in the above discussion regarding Chino, we estimate the Company s costs to achieve the closure standards under that estimate to be approximately $257 million for Tyrone. The Company has not obtained approval from NMED of an estimate of its cost to achieve the closure standards that would be required by the hearing officer s decision. The Company s current cost estimate for Cobre of approximately $9 million will be updated with the issuance of the discharge permit. At September 30, 2003, and December 31, 2002, we had accrued closure costs of approximately $61 million and $27 million, respectively, at Tyrone and approximately $7 million and $2 million, respectively, at Cobre.

Following NMED s issuance of the closure permits, Chino, Cobre and Tyrone are required to submit proposals for financial assurance based upon the permit requirements and subject to NMED s approval. Under the proposed closure permit terms, the amount of financial assurance may be based upon the net present value (NPV) of the estimated cost for a third-party to implement the plan, using discount and escalation rates specified in the permit. These amounts are expected to be substantially lower than the undiscounted and unescalated cost estimates. For example, based upon the cost estimate approved by NMED, the financial assurance amount for Chino could be approximately $191 million. This amount is based on annual escalation rates of approximately 3.2 percent for long-term water treatment costs and approximately 3.6 percent for other costs and discount rates of 5 percent for years one through 12 of the plan and 8 percent for years 13 through 100.

NMMAR requires that financial assurance for a closeout plan be approved and put in place before MMD can approve the closeout plan. Chino and Tyrone have provided approximately $56 million and $58 million of financial assurance in the form of surety bonds, respectively, to NMED under the terms of several discharge permits. The closure and financial assurance requirements of these permits have been superseded by the recently issued NMED closure permits. Consequently, the Company has advised NMED that this financial assurance should be terminated and replaced by new financial assurance under the terms of the new closure permits. Chino and Tyrone have submitted financial assurance proposals in accordance with the schedules under their NMED closure permit proposing financial assurance primarily in the form of corporate performance guarantees from the Company. Cobre also has approximately $2 million of financial assurance in place held jointly by NMED and MMD. Following NMED s issuance of the closure permits, and prior to MMD s approval of the closeout plans, Chino, Tyrone and Cobre

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will be required to provide substantial amounts of additional financial assurance to cover the amounts of the approved cost estimates. Hidalgo currently has provided financial assurance in the amount of approximately $11 million under its discharge permit.

In late May 2003, the Company and the state announced an agreement on a framework for the Company to provide financial assurance for Chino, Tyrone and Cobre under both NMMAR and WQCC Regulations. Under this agreement, the Company will provide financial assurance based upon the NPV of the cost estimates in a total amount of approximately $484 million. Initially, approximately 70 percent of this amount will be covered by a corporate performance guarantee. The balance of approximately 30 percent will be provided as trust funds and collateral, including cash and liens on certain owned parcels of non-mining real estate located in New Mexico. In addition, the Company agreed to expend at least $30 million on accelerated closure and reclamation work over the next 10 years. The amounts to be covered by guarantees will be reduced to approximately 64 percent by the amount of accelerated reclamation performed.

Following the July announcement of the Company s agreed upon acquisition of Heisei Minerals Corporation s (Heisei) one-third interest in Chino and Heisei s agreement to provide funding for one-third of the Chino financial assurance in a trust fund, the Company and the state engaged in further discussions regarding the details of the financial assurance to be provided under the May 2003 framework. On October 1, 2003, the Company and the state announced the signing of an addendum to the May agreement. Under the addendum, Chino s financial assurance will consist of one-third as a trust fund and the remaining two-thirds as a guarantee. Completion of the one-third acquisition from Heisei, which is subject to certain closing conditions, is expected to occur in the 2003 fourth quarter. Tyrone will place an initial amount of $17 million in a trust fund, increasing to $27 million over five years. About $62.8 million in collateral will be required initially to cover the 30 percent of Tyrone s financial assurance not covered by a guarantee. Cobre will have a $1 million trust fund, increasing to $3 million over five years, and an initial amount of about $7.4 million in collateral. The addendum also sets a goal of a total of $109.8 million, including earnings on the trust funds, in all three trust funds at the end of a five-year period. The addendum retains the Company s commitment to expend at least $30 million over the next 10 years on accelerated reclamation of inactive portions of the three mines, and adds a schedule identifying particular projects and anticipated timeframes for reclamation.

On October 10, 2003, Tyrone signed a Settlement Agreement with NMED to fulfill a major portion of the commitment to expend at least $30 million for reclamation by agreeing to reclaim all of the inactive tailing impoundments at Tyrone over an eight-year period. The Settlement Agreement was executed on behalf of NMED on October 15, 2003.

Finalization of the financial assurance is subject to completion of the permitting process, including additional public comment and hearings. MMD also has proposed some changes to NMMAR for consideration by the Mining Commission, which could affect the final financial assurance package.

Avian Mortalities and Natural Resource Damage Claims

Since the fall of 2000, the Company s mining operations have been updating plans and implementing additional measures to reduce avian mortalities following the discovery of avian mortalities at some of the Company s mining operations, including Tyrone and Morenci. During this period, the mine operators have been sharing information and discussing various approaches with the U.S. Fish and Wildlife Service (FWS) in conjunction with FWS investigations of the avian mortalities. As a result of the FWS investigations, federal authorities have raised issues related to the avian mortalities under two federal laws, the Migratory Bird Treaty Act (MBTA) and the natural resource damages provision of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). As part of the discussions regarding the MBTA, the FWS has requested that the mining op-

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erations undertake various measures to reduce the potential for future avian mortalities, including measures to eliminate or reduce avian access to ponds that contain acidic water. The FWS interprets the MBTA as strictly prohibiting the unauthorized taking of any migratory bird, and there are no licensing or permitting provisions under the MBTA that would authorize the taking of migratory birds as a result of industrial operations, such as mining. The Tyrone mine has entered into a settlement agreement with NMED to complete reclamation of its inactive tailing ponds, which should address many of the avian concerns related to Tyrone. The Morenci mine also is developing plans for additional measures to address the FWS s concerns.

The Company received a letter, dated August 21, 2003, from the U.S. Department of Interior, as trustee for certain natural resources, and on behalf of trustees for the states of New Mexico and Arizona asserting claims for natural resource damages relating to the avian mortalities and other matters. The notice cited CERCLA and the Clean Water Act and identified alleged releases of hazardous substances at the Chino, Tyrone and Continental (Cobre Mining Company) Mines in New Mexico and the Morenci Mine in Arizona. In addition to allegations of natural resource damages relating to avian mortalities, the letter alleges injuries to other natural resources, including other wildlife, surface water and ground water. The letter was accompanied by a Preassessment Screen report. The letter expresses the trustees interest in engaging in a cooperative assessment regarding the claims in which the Company would participate in the assessment of the alleged injuries and potential damages with the objective of settling the claims. The Company has entered into tolling agreements with the trustees to toll the statute of limitations pending discussions with the trustees regarding a cooperative assessment process.

9. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) available to common shares by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per common share is computed in a similar manner except that the denominator is increased to include the incremental number of common shares that would have been outstanding assuming the conversion of mandatory convertible preferred shares, the exercise of stock options where the exercise prices were less than the average market price of the Company s common shares during the period, and the number of unvested restricted shares, but all of the foregoing only to the extent that the related impacts are not anti-dilutive. Additionally, dividends on mandatory convertible preferred shares that were deducted in arriving at net income (loss) available to common shares are added back to the numerator as a result of the assumed conversion of such preferred shares.

For the quarter and nine-months ended September 30, 2003, the number of incremental common shares relating to the assumed conversion of the mandatory convertible preferred shares (4.6 million and 4.9 million, respectively) and stock options (0.4 million and 0.2 million, respectively) and unvested restricted stock (0.4 million) issued to employees were excluded from the calculation as the related impacts were anti-dilutive.

As a result of the net loss experienced for the quarter and nine-months ended September 30, 2002, the number of incremental common shares relating to the assumed conversion of the mandatory convertible preferred shares (5.0 million and 2.0 million, respectively) and unvested restricted stock (0.3 million) issued to employees were excluded from the calculation as the related impacts were anti-dilutive.

Finally, common shares relating to stock options where the exercise prices exceeded the average market price of the Company s common shares during the period were also excluded from the diluted earnings per share calculation as the related impact was anti-dilutive. Incre-

mental shares relating to these options totaled 6.3 million shares at an average exercise price of $61.08 for the 2003 third quarter and 7.2 million at an average exercise price of $58.89 for the nine months ended September 30, 2003; and 9.1 million shares at an average exercise price of $55.91 for the 2002 third quarter and 7.5 million shares at an average exercise price of $60.90 for the nine months ended September 30, 2002.

(Unaudited; $ in millions except per share data)

	Third Quarter	
	2003	**2002**
		(As Restated)*
Basic Loss Per Share Computation		
Numerator:		
Net loss	$ (0.3)	(53.7)
Preferred stock dividends	(3.3)	(3.3)
Net loss applicable to common shares	$ (3.6)	(57.0)
Denominator:		
Weighted average common shares outstanding	88.7	88.6
Basic loss per common share	$ (0.04)	(0.64)
Diluted Loss Per Share Computation		
Numerator:		
Net loss	$ (0.3)	(53.7)
Denominator:		
Weighted average common shares outstanding**	88.7	88.6
Diluted loss per common share	$ (0.04)	(0.64)

* Refer to Note 2, Restatements, for further discussion.

** Resulting from anti-dilutive impact, excludes (i) conversion of mandatory convertible preferred shares to common shares of 4.6 million and 5.0 million shares, respectively, in the third quarters of 2003 and 2002; (ii) additional common shares of 0.4 million and 0.3 million shares, respectively, in the third quarters of 2003 and 2002 for unvested restricted stock; and (iii) additional common shares of 0.4 million in the third quarter of 2003 for stock options issued to employees.

(Unaudited; $ in millions except per share data)

	Nine Months Ended September 30,	
	2003	**2002**
		(As Restated)*
Basic Loss Per Share Computation		
Numerator:		
Net loss	$ (30.5)	(112.8)
Preferred stock dividends	(10.1)	(5.7)
Net loss applicable to common shares	$ (40.6)	(118.5)

Denominator:		
Weighted average common shares outstanding	88.6	82.6
Basic loss per common share	$(0.46)	(1.43)
Diluted Loss Per Share Computation		
Numerator:		
Net loss	$(30.5)	(112.8)
Denominator:		
Weighted average common shares outstanding**	88.6	82.6
Diluted loss per common share	$(0.46)	(1.43)

* Refer to Note 2, Restatements, for further discussion.

** Resulting from anti-dilutive impact, excludes (i) conversion of mandatory convertible preferred shares to common shares of 4.9 million and 2.0 million shares, respectively, for the nine months ended September 30, 2003 and 2002; (ii) additional common shares of 0.4 million and 0.3 million for the nine months ended September 30, 2003 and 2002, for unvested restricted stock; and (iii) additional common shares of 0.2 million for the nine months ended September 30, 2003, for stock options issued to employees.

10. Benefit (Provision) for Taxes on Income

The Company s income tax provision for the 2003 third quarter principally resulted from (i) taxes on earnings at international operations ($14.0 million) that cannot be offset by losses at domestic operations; partially offset by (ii) a current-year loss carryback benefit for U.S. operations ($2.0 million). The Company s income tax provision for the nine months ended September 30, 2003, primarily comprised the following: (i) taxes on earnings at international operations ($41.2 million) that cannot be offset by losses at domestic operations; partially offset by (ii) a benefit from finalizing year-end 2002 estimates in the Company s 2002 U.S. tax return filed in June 2003 ($4.2 million) and (iii) a current-year loss carryback benefit for U.S. operations ($3.1 million).

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The Company s income tax benefit for the 2002 third quarter comprised the following items: (i) an additional $28.1 million special tax benefit associated with 2001 net operating losses that, based on new tax legislation, may be carried back to recover prior years taxes; (ii) a $5.0 million benefit recognized for the 2002 third quarter net operating losses that, based on the March enactment of the Job Creation and Worker Assistance Act of 2002, may also be carried back to recover prior years taxes; and (iii) a $2.0 million expense for taxes on earnings at international operations. The Company s income tax benefit for the nine months ended September 30, 2002, comprised the following items: (i) a $66.6 million tax benefit associated with the carryback of 2001 net operating losses that, based on new tax legislation, may be carried back to recover prior years taxes; (ii) a $39.8 million benefit recognized for the first nine months of 2002 net operating losses, based on new tax legislation; (iii) a $17.8 million expense for taxes on earnings at international operations; and (iv) a $13.0 million benefit for release of deferred taxes previously provided.

11. Accounting for Derivative Instruments and Hedging Activities

The Company does not purchase, hold or sell derivative contracts unless we have an existing asset, obligation or anticipate a future activity that is likely to occur and will expose us to market risk. We do not enter into any contracts for speculative purposes. We use various strategies to manage our market risk, including the use of derivative contracts to limit, offset or reduce our market exposure. Derivative instruments are used to manage well-defined commodity price, energy, interest rate and foreign exchange risks from our primary business activities. The fair values of our derivative instruments are based on quoted market prices for similar instruments at period end. Refer to Management s Discussion and Analysis and Note 20, Derivative Financial Instruments Held for Purposes Other Than Trading and Fair Value of Financial Instruments, to the Consolidated Financial Statements included in the Company s Form 10-K for the year ended December 31, 2002, for a discussion on our derivative instruments.

During the quarter and nine months ended September 30, 2003, we reclassified approximately $2.3 million and $6.3 million, respectively, of other comprehensive losses to the Statement of Consolidated Operations, principally as a result of our floating-to-fixed interest rate swaps.

During the quarter and nine-month period ended September 30, 2002, we reclassified approximately $2.6 million and $9.4 million, respectively, of other comprehensive losses to the Statement of Consolidated Operations, principally as a result of our floating-to-fixed interest rate swaps.

12. *Shareholders Equity*

Series A Mandatory Convertible Preferred Stock

Each share of Series A Mandatory Convertible Preferred Stock (Series A Stock) is convertible into 2.083 shares of Common Stock, subject to certain adjustments, at any time prior to August 15, 2005, and is entitled to an annual dividend of $6.75, paid quarterly. On August 15, 2005, each share of Series A Stock will automatically convert, subject to certain adjustments, into between 2.083 and 2.5 shares of Common Stock depending on the then-current market price of our Common Stock. Each share of Series A Stock is non-voting and entitled to a liquidation preference of $100 plus any accrued but unpaid dividends. There were 6 million authorized shares and 2 million outstanding shares of Series A Stock at September 30, 2003.

REVIEW BY INDEPENDENT ACCOUNTANTS

The financial information as of September 30, 2003, and for the three-month and nine-month periods ended September 30, 2003 and 2002, included in Part I pursuant to Rule 10-01 of Regulation S-X has been reviewed by PricewaterhouseCoopers LLP (PricewaterhouseCoopers), the Company s independent accountants, in accordance with standards established by the American Institute of Certified Public Accountants. PricewaterhouseCoopers report is included in this quarterly report.

PricewaterhouseCoopers does not carry out any significant or additional procedures beyond those that would have been necessary if its report had not been included in this quarterly re-

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port. Accordingly, such report is not a report or part of a registration statement within the meaning of Sections 7 and 11 of the Securities Act of 1933 and the liability provisions of Section 11 of such Act do not apply.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Phelps Dodge Corporation

We have reviewed the accompanying consolidated balance sheet of Phelps Dodge Corporation and its subsidiaries as of September 30, 2003, and the related statement of consolidated operations for each of the three-month and nine-month periods ended September 30, 2003 and 2002, the consolidated statement of cash flows for the nine-month periods ended September 30, 2003 and 2002, and the consolidated statement of shareholders equity for the nine-month period ended September 30, 2003. This interim financial information is the responsibility of the Company s management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Company restated its consolidated interim financial information for the three-month and nine-month periods ended September 30, 2002.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2002, and the related consolidated statements of operations, of cash flows and of shareholders equity for the year then ended (not presented herein), and in our report dated April 3, 2003 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2002, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
Phoenix, Arizona
October 27, 2003

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Item 2. Management s Discussion and Analysis

The United States securities laws provide a safe harbor for certain forward-looking statements. This quarterly report contains forward-looking statements that express expectations of future events or results. All statements based on future expectations rather than historical facts are forward-looking statements that involve a number of risks and uncertainties, and Phelps Dodge Corporation (the Company, which may be referred to as Phelps Dodge, PD, we, us or ours) cannot give assurance that such statements will prove to be correct. Our business consists of two divisions, Phelps Dodge Mining Company (PDMC) and Phelps Dodge Industries (PDI). Refer to Management s Discussion and Analysis in the Company s report on Form 10-K for the year ended December 31, 2002, for a further discussion of such risks and uncertainties, our operations, and our critical accounting policies. Additionally, refer to Note 6, Accounting Standards, to our unaudited September 30, 2003, Consolidated Financial Information for a discussion on the adoption of Statement of Financial Accounting (SFAS) No. 143.

Restatements

As discussed in Note 2, Restatements, in this Form 10-Q for the quarter ended September 30, 2003, certain accounting matters were identified in the fourth quarter of 2002 that required restatement of our December 31, 2001 and 2000, Consolidated Financial Statements and our financial statements for the quarterly periods ended March 31, 2001, through September 30, 2002. The adjustments for the quarter and nine months ended September 30, 2002, decreased operating loss by $6.9 million and $18.2 million, respectively, and decreased net loss by $2.2 million, or 3 cents per common share, and $7.2 million, or 9 cents per common share, respectively.

Additionally, our presentation of reportable segment information for PDMC for the quarter and nine months ended September 30, 2002, has been revised to reflect additional segments.

RESULTS OF OPERATIONS

Consolidated Financial Results

(Unaudited; $ in millions except per share amounts)

	Third Quarter	
	2003	**2002**
		(As Restated)
Sales and other operating revenues	$ 1,031.1	941.2
Operating income (loss)	$ 46.8	(12.0)
Net loss	$ (0.3)	(53.7)
Net loss per common share, basic and diluted	$ (0.04)	(0.64)

The Company had a consolidated net loss in the 2003 third quarter of $0.3 million, or 4 cents per common share, including a special, net loss of $9.0 million, or 10 cents per common share, after taxes. In the 2002 third quarter, the consolidated net loss was $53.7 million, or 64 cents per common share, including a special, net loss of $24.0 million, or 27 cents per common share, after taxes.

The $53.4 million decrease in consolidated net loss in the 2003 third quarter compared with the corresponding 2002 period primarily was due to higher LME copper prices (approximately $57 million), early debt extinguishment costs in the 2002 third quarter ($31.3 million), and a favorable change in special items and provisions ($13.8 million); partially offset by a higher tax provision ($43.3 million), resulting primarily from the absence of the effect of 2002 tax legislation that permitted a five-year carryback of our 2001 and 2002 net operating losses, and slightly higher implied unit cost of copper production (approximately $6 million).

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(Unaudited; $ in millions except per share amounts)

	Nine Months Ended September 30,	
	2003	2002
		(As Restated)
Sales and other operating revenues	$ 2,971.3	2,826.5
Operating income (loss)	$ 92.7	(9.5)
Loss before cumulative effect of accounting change	$ (38.9)	(89.9)
Cumulative effect of accounting change	8.4	(22.9)
Net loss	$ (30.5)	(112.8)
Loss before cumulative effect of accounting change per common share, basic and diluted	$ (0.55)	(1.15)
Cumulative effect of accounting change	0.09	(0.28)
Net loss per common share, basic and diluted	$ (0.46)	(1.43)

The Company had a consolidated loss for the nine months ended September 30, 2003, of $30.5 million, or 46 cents per common share, including a special, net gain of $5.0 million, or 6 cents per common share, after taxes. For the nine months ended September 30, 2002, the consolidated loss was $112.8 million, or $1.43 per common share, including a special, net loss of $20.5 million, or 25 cents per common share, after taxes.

The $82.3 million decrease in net loss for the nine months ended September 30, 2003, compared with the corresponding 2002 period primarily was due to higher LME copper prices (approximately $91 million), a higher cumulative income effect of accounting changes ($31.3 million) mostly due to the goodwill impairment losses upon adoption of SFAS No. 142 in 2002, a favorable change in pre-tax, special items and provisions ($47.7 million), lower net interest expense ($33.9 million) and early debt extinguishment costs in 2002 ($31.3 million); partially offset by a higher tax provision ($129.7 million) resulting primarily from the absence of the effect of 2002 tax legislation that permitted a five-year carryback of the 2001 and 2002 net operating losses, and slightly higher implied unit cost of copper production (approximately $9 million).

Special Items

Throughout Management s Discussion and Analysis there is disclosure and discussion of what management believes to be special items. We view special items as unpredictable and atypical of our operations in the period. We believe consistent identification, disclosure and discussion of such items, both favorable and unfavorable, provide additional information to assess the quality of our performance and our earnings or losses. In addition, management measures the performance of its reportable segments excluding special items. This supplemental information is not a substitute for any U.S. generally accepted accounting principles (GAAP) measure and should be evaluated within the context of our U.S. GAAP results. Any supplemental information references to earnings, losses or results excluding special items or before special items, our non-GAAP measure of items, may not be comparable to similarly titled measures reported by other companies.

Note: Supplemental Data

(Unaudited; $ in millions)

Third Quarter

	2003	2002
		(As Restated)
Special items, net of taxes	$ (9.0)	(24.0)
Income (losses) excluding special items (after taxes)	$ 8.7	(29.7)

(Unaudited; $ in millions)

	Nine Months Ended September 30,	
	2003	2002
		(As Restated)
Special items, net of taxes	$ 5.0	(20.5)
Losses excluding special items (after taxes)	$ (35.5)	(92.3)

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Note: Supplemental Data

The following schedules summarize the special items and provisions for the three- and nine-month periods ended September 30, 2003 and 2002:

(Unaudited; gains (losses) in millions except per share amounts)

	2003 Third Quarter			2002 Third Quarter		
	Pre-tax Earnings	After-tax Earnings	$/share After-tax	Pre-tax Earnings	After-tax Earnings	$/share After-tax
Special items and provisions, net:						
PDMC (see Business Segment disclosure)	$ (5.0)	(4.8)	(0.05)	(8.1)	(7.0)	(0.08)
PDI (see Business Segment disclosure)	0.4	0.4		(21.4)	(20.6)	(0.23)
Corporate and Other						
Environmental provisions, net	(3.7)	(3.5)	(0.04)	(0.5)	(2.9)	(0.03)
Environmental insurance recoveries, net				6.8	6.1	0.07
Historic Cyprus Amax lawsuit settlement					(0.6)	(0.01)
Historic Cyprus Amax arbitration award with regard to Plateau Mining					(0.5)	(0.01)
Historic Cyprus Amax legal matter	(1.1)	(1.1)	(0.01)			
	(4.8)	(4.6)	(0.05)	6.3	2.1	0.02
	(9.4)	(9.0)	(0.10)	(23.2)	(25.5)	(0.29)
Early debt extinguishment costs (see Note 6)				(31.3)	(26.6)	(0.30)
Benefit for taxes on income:						
Tax benefit for 2001 net operating loss carryback					28.1	0.32
Total	$ (9.4)	(9.0)	(0.10)	(54.5)	(24.0)	(0.27)

(Unaudited; gains (losses) in millions except per share amounts)

	Nine Months Ended September 30, 2003			Nine Months Ended September 30, 2002		
	Pre-tax Earnings	After-tax Earnings	$/share After-tax	Pre-tax Earnings	After-tax Earnings	$/share After-tax
Special items and provisions, net:						
PDMC (see Business Segment disclosure)	$ (5.5)	(5.2)	(0.06)	26.6	25.3	0.30
PDI (see Business Segment disclosure)	3.6	2.8	0.03	(21.4)	(20.6)	(0.25)

Corporate and Other						
Environmental provisions, net	(7.1)	(6.8)	(0.07)	(12.6)	(12.6)	(0.15)
Environmental insurance recoveries, net	0.5	0.5	0.01	15.4	13.0	0.16
Historic Cyprus Amax lawsuit settlement				(11.2)	(9.5)	(0.12)
Historic Cyprus Amax arbitration award with regard to Plateau Mining				(46.5)	(45.0)	(0.54)
Historic Cyprus Amax legal matter	(1.1)	(1.1)	(0.01)			
	(7.7)	(7.4)	(0.07)	(54.9)	(54.1)	(0.65)
	(9.6)	(9.8)	(0.10)	(49.7)	(49.4)	(0.60)
Early debt extinguishment costs (see Note 6)				(31.3)	(26.6)	(0.32)
Miscellaneous income (expense), net:						
Cost investment write-downs				(1.2)	(1.2)	(0.01)
Gain on sale of cost investment	6.4	6.4	0.07			
	6.4	6.4	0.07	(1.2)	(1.2)	(0.01)
Benefit for taxes on income:						
Release of taxes provided with regard to Plateau Mining					13.0	0.16
Tax benefit for 2001 net operating loss carryback (see Note 10)					66.6	0.80
					79.6	0.96
Cumulative effect of accounting change (see Note 6)	9.7	8.4	0.09	(33.0)	(22.9)	(0.28)
Total	$ 6.5	5.0	0.06	(115.2)	(20.5)	(0.25)

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Quest for Zero Operational Improvement Program

Phelps Dodge announced in October 2001 that it was commencing *Quest for Zero (QFZ)*, a comprehensive, lean-production program, designed to, among other things, improve operating income by a targeted $250 million annually. *Quest for Zero* encompasses both the October 2001 program and the $150 million cost improvement program announced in May 2001. The Company s goal is to achieve these combined annual operating income improvements of $400 million by the end of 2003 when compared with the results that were then expected for 2001.

In order to achieve the full $400 million target, PDMC chartered business improvement teams to drive performance improvement projects and best practices. The elimination of variance and waste are key factors in this process, coupled with the rapid transfer of best practices to all business units. On a quarterly basis, we document improvement successes, failures and potential projects yet to be implemented. New project ideas are generated at internal conferences where statistical analysis tools are utilized on current performance data to identify improvement opportunities. Improvement projects are prioritized and implemented accordingly. Key elements of the plan going forward include six-sigma quality programs, technology innovations, global procurement strategies and improved operating practices.

During the 2003 third quarter, we achieved $84 million (an annual run rate of $335 million) in improvements, bringing total improvements in the nine quarters since the program was announced to $505 million.

We remain determined to drive toward our stretch goal of an implied production cost of 60 cents per pound. We continue to experience challenges that come with multi-year improvement projects as we begin to tackle more difficult initiatives; unforeseen costs including higher energy, pension and medical costs, and higher administrative costs and professional fees; and our Company s decision to emphasize growth-oriented projects. We expect to achieve 2003 fourth quarter *QFZ* improvements of $90 million to $100 million, equating to an annualized run-rate of $360 million to $400 million.

The following is a summary of improvement dollars:

(Unaudited; $ in millions)

	Third Quarter	
	2003	**2002**
U.S. Mining Operations*	$52	31
South American Mines**	17	11
Primary Molybdenum	3	4
Total PDMC	72	46
Specialty Chemicals	5	1
Wire and Cable	7	5
Total PDI	12	6
Total *Quest for Zero*	$84	52

(Unaudited; $ in millions)

	Nine Months Ended September 30,	
	2003	**2002**

U.S. Mining Operations*	$155	96
South American Mines**	44	29
Primary Molybdenum	10	8
Total PDMC	209	133
Specialty Chemicals	14	6
Wire and Cable	16	10
Total PDI	30	16
Total *Quest for Zero*	$239	149

* U.S. Mining Operations combines the following segments: Morenci, Bagdad/Sierrita, Miami/Bisbee, Chino/Cobre, Tyrone, Manufacturing and Sales, and Other Mining.

** South American Mines combines the following segments: Candelaria, Cerro Verde and El Abra.

Business Divisions

Results for 2003 and 2002 can be meaningfully compared by separate reference to our reporting divisions, PDMC and PDI. PDMC is a business division that includes our worldwide copper operations from mining through rod production, marketing and sales; molybdenum operations from mining through manufacturing, marketing and sales; other mining operations and investments; and worldwide mineral exploration and development programs. PDMC comprises 11 reportable segments. PDI, our manufacturing division, produces engineered products principally for the global energy, telecommunications, transpor-

tation and specialty chemical sectors. PDI includes our Specialty Chemicals segment and our Wire and Cable segment. Significant events and transactions have occurred within each segment that, as indicated in the separate discussions presented below, are material to an understanding of the particular year s results and to a comparison with results of other periods.

RESULTS OF PHELPS DODGE MINING COMPANY

PDMC is our international business division that comprises our vertically integrated copper operations from mining through rod production, primary molybdenum operations through conversion, marketing and sales, and worldwide exploration. PDMC comprises 11 reportable segments.

Our copper mines comprise five reportable segments in the United States (Morenci, Bagdad/Sierrita, Miami/Bisbee, Chino/Cobre and Tyrone) and three reportable segments in South America (Candelaria, Cerro Verde and El Abra). These segments include open-pit mining, sulfide ore concentrating and electrowinning. In addition, some of these produce gold and silver, and the Bagdad and Sierrita mines also produce molybdenum as by-products.

The Manufacturing and Sales segment consists of conversion facilities including our smelters, refineries and rod mills, as well as sales and marketing. The Manufacturing and Sales segment sells copper to others primarily as rod, cathode or concentrate, and as rod to our Wire and Cable segment. In addition, at times it smelts and refines copper and produces copper rod for customers on a toll basis. Toll arrangements require the tolling customer to deliver appropriate copper-bearing material to our facilities, which we then process into a product that is returned to the customer. The customer pays PDMC for processing its material into the specified products.

The Primary Molybdenum segment consists of the Henderson and Climax mines and related conversion facilities. This segment is an integrated producer of molybdenum, with mining, roasting and processing facilities producing high-purity, molybdenum-based chemical and metallurgical products. In addition, at times it roasts and/or processes material on a toll basis. Toll arrangements require the tolling customer to deliver appropriate molybdenum-bearing material to our facilities, which we then process into a product that is returned to the customer. The customer pays PDMC for processing its material into the specified products.

Other Mining includes our worldwide mineral exploration and development programs, a process technology center that directs its activities at improving existing processes and developing new cost-competitive technologies, and other ancillary operations.

(Unaudited; $ in millions except per pound amounts)

	Third Quarter	
	2003	**2002**
		(As Restated)
Sales and other operating revenues to unaffiliated customers	$704.1	629.3
Operating income	$ 59.6	5.7
Copper production (thousand short tons):		
Total production	329.2	312.8
Less minority participants shares (A)	62.9	58.6
Net Phelps Dodge share	266.3	254.2
Copper sales (thousand short tons):		
Net Phelps Dodge share from own mines	268.6	267.4
Purchased copper	90.9	113.2
Total copper sales	359.5	380.6

LME average spot copper price per pound cathodes	$0.795	0.689
COMEX average spot copper price per pound cathodes	$0.800	0.693
Implied unit cost of copper production full	$0.675	0.663
Implied unit cost of copper production cash	$0.518	0.500
Molybdenum production (million pounds)	13.1	12.1
Molybdenum sales (million pounds):		
Net Phelps Dodge share from own mines	12.5	10.8
Purchased molybdenum	2.6	1.7
Total molybdenum sales	15.1	12.5
Metals Week:		
Molybdenum oxide price per pound	$ 5.67	4.71

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(Unaudited; $ in millions except per pound amounts)

	Nine Months Ended September 30,	
	2003	2002
		(As Restated)
Sales and other operating revenues to unaffiliated customers	$2,000.7	1,885.5
Operating income	$ 121.1	71.2
Copper production (thousand short tons):		
Total production	965.2	951.3
Less minority participants shares (A)	179.2	185.3
Net Phelps Dodge share	786.0	766.0
Copper sales (thousand short tons):		
Net Phelps Dodge share from own mines	798.9	800.6
Purchased copper	269.3	333.7
Total copper sales	1,068.2	1,134.3
LME average spot copper price per pound cathodes	$ 0.765	0.708
COMEX average spot copper price per pound cathodes	$ 0.769	0.719
Implied unit cost of copper production full	$ 0.686	0.680
Implied unit cost of copper production cash	$ 0.530	0.516
Molybdenum production (million pounds)	37.7	33.1
Molybdenum sales (million pounds):		
Net Phelps Dodge share from own mines	39.8	34.9
Purchased molybdenum	6.2	7.1
Total molybdenum sales	46.0	42.0
Metals Week:		
Molybdenum oxide price per pound	$ 4.98	3.94

(A) Minority participant interests include (i) a 15 percent undivided interest in Morenci, Arizona, copper mining complex held by Sumitomo Metal Mining Arizona, Inc., (ii) a one-third partnership interest in Chino Mines Company in New Mexico held by Heisei Minerals Corporation see additional discussion on PDC s agreement to acquire Heisei s share on page 52, (iii) a 20 percent partnership interest in Candelaria in Chile held by SMMA Candelaria, Inc., a jointly owned indirect subsidiary of Sumitomo Metal Mining Co., Ltd., and Sumitomo Corporation, and (iv) a 49 percent partnership interest in the El Abra copper mining operation in Chile held by Corporación Nacional del Cobre de Chile (CODELCO).

Note: Supplemental Data

Implied unit cost of copper production measures the all-in cost of each pound of copper produced by PDMC. As the title indicates, this measure is the cost implied by the market price of copper (i.e., London Metal Exchange average spot) for a given period versus PDMC s operating income (loss) for the same period.

There is no established standard for calculating unit production costs in the copper industry. PDMC s implied unit production cost indicator (which is based on readily accessible, publicly disclosed data) acts as a proxy to enable investors to follow and interpret cost trends over historical periods.

PDMC calculates its all-in operating margin per pound of copper sold by dividing its operating income (loss) excluding special items by the total pounds of copper sold from its own mines for its own account (as disclosed in the table above). This results in an all-in operating margin (i.e., inclusive of cost of products sold; depreciation, depletion and amortization; selling and general administrative expense; and exploration and research expense for the segment s operations) that is compared to the market price of copper to render an implied cost of copper production. Following is the calculation of implied unit cost of copper production for the quarters and nine months ended September 30, 2003 and 2002:

(Unaudited; $ in millions except per pound amounts)

	Third Quarter	
	2003	**2002**
		(As Restated)
PDMC implied unit cost of copper production		
Operating income	$ 59.6	5.7
Less special operating items	(5.0)	(8.1)
Operating income excluding special items	$ 64.6	13.8
Copper sales from own mines million pounds	537.2	534.9
Operating margin per pound of copper sold	$ 0.120	0.026
LME average spot copper price per pound cathodes	$ 0.795	0.689
Implied unit cost of copper production per pound	$ 0.675	0.663

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(Unaudited; $ in millions except per pound amounts)

	Nine Months Ended September 30,	
	2003	2002
		(As Restated)
PDMC implied unit cost of copper production		
Operating income	$ 121.1	71.2
Less special operating items	(5.5)	26.6
Operating income excluding special items	$ 126.6	44.6
Copper sales from own mines million pounds	1,597.9	1,601.3
Operating margin per pound of copper sold	$ 0.079	0.028
LME average spot copper price per pound cathodes	$ 0.765	0.708
Implied unit cost of copper production per pound	$ 0.686	0.680

Note: Our measure of implied unit cost of copper production may not be comparable to similarly titled measures reported by other companies.

Total PDMC Division Sales

PDMC s sales and other operating revenues to unaffiliated customers increased $74.8 million, or 12 percent, in the 2003 third quarter compared with the 2002 third quarter. The increase reflected higher average copper prices (approximately $74 million), higher average molybdenum prices (approximately $3 million), higher sales volumes of molybdenum (approximately $15 million) and higher precious metals sales (approximately $5 million); partially offset by lower copper sales volumes (approximately $21 million) primarily reflecting decreased purchases and sales of third-party copper.

PDMC s sales and other operating revenues to unaffiliated customers increased $115.2 million, or 6 percent, in the first nine months of 2003 compared with the first nine months of 2002. The increase reflected higher average copper prices (approximately $113 million), higher average molybdenum prices (approximately $45 million), higher sales volumes of molybdenum (approximately $18 million) and higher precious metals sales (approximately $5 million); partially offset by lower copper sales volumes (approximately $66 million) primarily reflecting decreased purchases and sales of third-party copper.

Total PDMC Operating Income (Loss)

PDMC reported operating income of $59.6 million in the 2003 third quarter, including a special, net pre-tax loss of $5.0 million, compared with operating income of $5.7 million in the 2002 third quarter, including a special, net pre-tax loss of $8.1 million. The increase in operating income primarily reflected higher copper prices (approximately $57 million) and lower pre-tax special losses ($3.1 million), partially offset by a slightly higher implied unit cost of copper production (approximately $6 million).

PDMC reported operating income of $121.1 million in the first nine months of 2003, including a special, net pre-tax loss of $5.5 million, compared with operating income of $71.2 million in the first nine months of 2002, including a special, net pre-tax gain of $26.6 million. The increase in operating income primarily reflected higher copper prices (approximately $91 million), partially offset by lower pre-tax special gains ($32.1 million) and a slightly higher implied unit cost of copper production (approximately $9 million).

The New York Commodity Exchange (COMEX) spot price per pound of copper cathode, primarily upon which we base our U.S. sales, averaged 80.0 cents and 69.3 cents in the third quarters of 2003 and 2002, respectively, and 76.9 cents and 71.9 cents for the first nine months of 2003 and 2002, respectively. The London Metal Exchange (LME) spot price per pound of copper cathode, primarily upon which we base our international sales, averaged 79.5 cents and 68.9 cents in the third quarters of 2003 and 2002, respectively, and 76.5 cents and 70.8 cents for the first nine months of 2003 and 2002, respectively.

The implied full unit cost of copper production for the third quarter of 2003 increased approximately 1 cent per pound compared with the third quarter of 2002. The cash unit cost of copper production for the third quarter of 2003 increased approximately 2 cents per pound compared with the third quarter of 2002. The increase was primarily due to unfavorable stockpile and inventory changes (approximately 2 cents per pound), higher energy costs (approximately 1 cent per pound) and higher exploration expenses (approximately 1 cent per pound); partially offset by lower depreciation and closure expense (approximately 1 cent per pound) and a favorable finished goods inventory change (approximately 1 cent per pound).

The implied full and cash unit cost of copper production for the first nine months of 2003 each increased approximately 1 cent per pound compared with the corresponding 2002 period. The increase was primarily due to unfavorable stockpile and inventory changes (approximately 2 cents per pound) and higher energy costs (approximately 2 cents per pound); partially offset by lower closure expense (approximately 1 cent per pound) and higher molybdenum prices (approximately 2 cents per pound).

Note: Supplemental Data

The following table summarizes PDMC s special items for the quarters and nine months ended September 30, 2003 and 2002, and the resultant earnings (losses) excluding these special items.

(Unaudited; $ in millions)

	Third Quarter	
	2003	2002
		(As Restated)
Special, pre-tax items:		
U.S. Mining Operations*	$ (5.0)	(8.1)
South American Mines**		
Primary Molybdenum		
	(5.0)	(8.1)
Segment operating income (loss) excluding special items:		
U.S. Mining Operations*	$24.3	(3.8)
South American Mines**	40.7	6.9
Primary Molybdenum	(0.4)	10.7
	64.6	13.8

(Unaudited; $ in millions)

	Nine Months Ended September 30,	
	2003	2002
		(As Restated)
Special, pre-tax items:		
U.S. Mining Operations*	$ (5.5)	26.6
South American Mines**		
Primary Molybdenum		
	(5.5)	26.6

Segment operating income (loss) excluding special items:		
U.S. Mining Operations*	$ 22.2	(20.9)
South American Mines**	104.3	54.6
Primary Molybdenum	0.1	10.9
	126.6	44.6

* U.S. Mining Operations combines the following segments: Morenci, Bagdad/Sierrita, Miami/Bisbee, Chino/Cobre, Tyrone, Manufacturing and Sales, and Other Mining.

** South American Mines combines the following segments: Candelaria, Cerro Verde and El Abra.

Note: Our non-GAAP measure of special items may not be comparable to similarly titled measures reported by other companies.

Note: Supplemental Data

Special, pre-tax items and provisions in operating income (loss) were as follows:

(Unaudited; $ in millions)

	Third Quarter 2003		
	U.S. Mining Operations	**South American Mines**	**Primary Molyb-denum**
Environmental provisions, net	$(5.0)	—	—

(Unaudited; $ in millions)

	Nine Months Ended September 30, 2003		
	U.S. Mining Operations	**South American Mines**	**Primary Molyb-denum**
Environmental provisions, net	$(5.5)	—	—

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(Unaudited; $ in millions)

	Third Quarter 2002		
	U.S. Mining Operations	South American Mines	Primary Molyb-denum
Environmental provisions, net	$(2.5)		
October 2001 restructuring:			
Reassessment of employee activities and take-or-pay contracts	4.4		
Additional retirement benefits	(6.4)		
Environmental insurance recoveries, net	(3.6)		
	$(8.1)	—	—

(Unaudited; $ in millions)

	Nine Months Ended September 30, 2002		
	U.S. Mining Operations	South American Mines	Primary Molyb-denum
Environmental provisions, net	$ (2.5)		
October 2001 restructuring:			
Reassessment of employee activities and take-or-pay contracts	4.4		
Additional retirement benefits	(6.4)		
Environmental insurance recoveries, net	8.5		
Sale of non-core real estate	22.6		
	$26.6	—	—

Note: Our non-GAAP measure of special items may not be comparable to similarly titled measures reported by other companies.

PDMC Results by Reportable Segments

The following tables summarize, on a segment basis, production and sales statistics, operating income (loss), and special items and provisions for the third quarters and first nine months of 2003 and 2002. Our presentation of reportable segment information for PDMC for the quarter and nine months ended September 30, 2002, has been revised to reflect comparative segments.

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PDMC RESULTS BY REPORTABLE SEGMENTS
(Unaudited)

	U.S. Mines					
	Morenci	Bagdad/ Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Subtotal
Third Quarter 2003						
Copper production (thousand short tons):						
Total production	108.6	46.9	5.1	10.1	13.5	184.2
Less minority participants shares	16.3			3.4		19.7
Net Phelps Dodge share	92.3	46.9	5.1	6.7	13.5	164.5
Copper sales (thousand short tons):						
Net Phelps Dodge share from own mines	92.3	46.0	4.9	6.7	13.5	163.4
Purchased copper						
Total copper sales	92.3	46.0	4.9	6.7	13.5	163.4
($ in millions)						
Operating income (loss)	$ 19.8	23.7	(0.7)	(4.9)	(5.5)	32.4
Special items and provisions	$ (1.1)			(1.3)	(0.5)	(2.9)
Third Quarter 2002 (as restated)						
Copper production (thousand short tons):						
Total production	106.0	39.2	2.3	11.9	18.7	178.1
Less minority participants shares	15.9			4.0		19.9
Net Phelps Dodge share	90.1	39.2	2.3	7.9	18.7	158.2
Copper sales (thousand short tons):						
Net Phelps Dodge share from own mines	90.1	50.4	5.4	7.9	18.6	172.4
Purchased copper						
Total copper sales	90.1	50.4	5.4	7.9	18.6	172.4
($ in millions)						
Operating income (loss)	$ 0.7	8.7	(5.9)	(2.1)	0.9	2.3
Special items and provisions	$ (0.5)		(2.3)	(2.5)		(5.3)

Refer to segment discussion on pages 46 through 51.

Revenues, operating costs and expenses of PDMC s segments include allocations that may not be reflective of market conditions. Additionally, certain costs are not allocated to the reportable segments. (Refer to pages 46 and 47 for further discussion.)

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PDMC RESULTS BY REPORTABLE SEGMENTS
(Unaudited)

	South American Mines			
	Candelaria	Cerro Verde	El Abra	Subtotal
Third Quarter 2003				
Copper production (thousand short tons):				
Total production	54.5	24.1	65.3	143.9
Less minority participants shares	10.9		32.1	43.0
Net Phelps Dodge share	43.6	24.1	33.2	100.9
Copper sales (thousand short tons):				
Net Phelps Dodge share from own mines	47.2	24.4	32.8	104.4
Purchased copper	2.2			2.2
Total copper sales	49.4	24.4	32.8	106.6
($ in millions)				
Operating income (loss)	$ 22.4	10.6	7.7	40.7
Special items and provisions	$			
Third Quarter 2002 (as restated)				
Copper production (thousand short tons):				
Total production	53.0	24.2	58.1	135.3
Less minority participants shares	10.6		28.5	39.1
Net Phelps Dodge share	42.4	24.2	29.6	96.2
Copper sales (thousand short tons):				
Net Phelps Dodge share from own mines	41.6	24.0	29.4	95.0
Purchased copper	7.1		16.0	23.1
Total copper sales	48.7	24.0	45.4	118.1
($ in millions)				
Operating income (loss)	$ 7.7	4.6	(5.4)	6.9
Special items and provisions	$			

Refer to segment discussion on pages 46 through 51.

Revenues, operating costs and expenses of PDMC s segments include allocations that may not be reflective of market conditions. Additionally, certain costs are not allocated to the reportable segments. (Refer to pages 46 and 47 for further discussion.)

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PDMC RESULTS BY REPORTABLE SEGMENTS
(Unaudited)

	Primary Molybdenum	Manufacturing and Sales	Other Mining	Total PDMC
Third Quarter 2003				
Copper production (thousand short tons):				
Total production		1.1		329.2
Less minority participants shares		0.2		62.9
Net Phelps Dodge share		0.9		266.3
Copper sales (thousand short tons):				
Net Phelps Dodge share from own mines		0.8		268.6
Purchased copper		88.7		90.9
Total copper sales		89.5		359.5
Molybdenum production (thousand pounds):				
Primary - Henderson	5,164			5,164
By-product	7,924			7,924
Total production	13,088			13,088
Molybdenum sales (thousand pounds):				
Net Phelps Dodge share from own mines	12,484			12,484
Purchased molybdenum	2,578			2,578
Total molybdenum sales	15,062			15,062
($ in millions)				
Operating income (loss)	$ (0.4)	6.1	(19.2)	59.6
Special items and provisions	$	(0.1)	(2.0)	(5.0)
Third Quarter 2002 (as restated)				
Copper production (thousand short tons):				
Total production		(0.6)		312.8
Less minority participants shares		(0.4)		58.6
Net Phelps Dodge share		(0.2)		254.2
Copper sales (thousand short tons):				
Net Phelps Dodge share from own mines				267.4
Purchased copper		90.1		113.2
Total copper sales		90.1		380.6
Molybdenum production (thousand pounds):				
Primary - Henderson	5,794			5,794

By-product	6,358			6,358
Total production	12,152			12,152
Molybdenum sales (thousand pounds):				
Net Phelps Dodge share from own mines	10,790			10,790
Purchased molybdenum	1,768			1,768
Total molybdenum sales	12,558			12,558
($ in millions)				
Operating income (loss)	$ 10.7	1.9	(16.1)	5.7
Special items and provisions	$	0.7	(3.5)	(8.1)

Refer to segment discussion on pages 46 through 51.

Revenues, operating costs and expenses of PDMC s segments include allocations that may not be reflective of market conditions. Additionally, certain costs are not allocated to the reportable segments. (Refer to pages 46 and 47 for further discussion.)

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PDMC RESULTS BY REPORTABLE SEGMENTS
(Unaudited)

	U.S.Mines					
	Morenci	Bagdad/ Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Subtotal
Nine Months Ended 2003						
Copper production (thousand short tons):						
Total production	317.6	136.0	14.4	26.4	44.9	539.3
Less minority participants shares	47.6			8.8		56.4
Net Phelps Dodge share	270.0	136.0	14.4	17.6	44.9	482.9
Copper sales (thousand short tons):						
Net Phelps Dodge share from own mines	270.0	143.4	16.6	17.6	44.9	492.5
Purchased copper						
Total copper sales	270.0	143.4	16.6	17.6	44.9	492.5
($ in millions)						
Operating income (loss)	$ 37.1	48.7	(4.5)	(9.8)	(14.4)	57.1
Special items and provisions	$ (1.1)		(0.5)	(1.3)	(0.5)	(3.4)
Nine Months Ended 2002 (as restated)						
Copper production (thousand short tons):						
Total production	313.4	116.1	6.2	43.6	51.5	530.8
Less minority participants shares	47.0			14.5		61.5
Net Phelps Dodge share	266.4	116.1	6.2	29.1	51.5	469.3
Copper sales (thousand short tons):						
Net Phelps Dodge share from own mines	266.4	140.3	13.2	29.0	51.5	500.4
Purchased copper						
Total copper sales	266.4	140.3	13.2	29.0	51.5	500.4
($ in millions)						
Operating income (loss)	$ 25.4	8.9	(14.2)	4.9	(0.2)	24.8
Special items and provisions	$ (0.5)		(2.3)	(2.5)		(5.3)

Refer to segment discussion on pages 46 through 51.

Revenues, operating costs and expenses of PDMC s segments include allocations that may not be reflective of market conditions. Additionally, certain costs are not allocated to the reportable segments. (Refer to pages 46 and 47 for further discussion.)

PDMC RESULTS BY REPORTABLE SEGMENTS
(Unaudited)

	South American Mines			
	Candelaria	Cerro Verde	El Abra	Subtotal
Nine Months Ended 2003				
Copper production (thousand short tons):				
Total production	167.0	73.5	180.3	420.8
Less minority participants shares	33.4		88.4	121.8
Net Phelps Dodge share	133.6	73.5	91.9	299.0
Copper sales (thousand short tons):				
Net Phelps Dodge share from own mines	135.6	73.9	92.8	302.3
Purchased copper	19.6		7.3	26.9
Total copper sales	155.2	73.9	100.1	329.2
($ in millions)				
Operating income (loss)	$ 59.1	26.7	18.5	104.3
Special items and provisions	$			
Nine Months Ended 2002 (as restated)				
Copper production (thousand short tons):				
Total production	163.2	70.7	186.8	420.7
Less minority participants shares	32.6		91.5	124.1
Net Phelps Dodge share	130.6	70.7	95.3	296.6
Copper sales (thousand short tons):				
Net Phelps Dodge share from own mines	131.3	70.6	98.0	299.9
Purchased copper	29.9		39.6	69.5
Total copper sales	161.2	70.6	137.6	369.4
($ in millions)				
Operating income (loss)	$ 41.1	18.2	(4.7)	54.6
Special items and provisions	$			

Refer to segment discussion on pages 46 through 51.

Revenues, operating costs and expenses of PDMC s segments include allocations that may not be reflective of market conditions. Additionally, certain costs are not allocated to the reportable segments. (Refer to pages 46 and 47 for further discussion.)

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PDMC RESULTS BY REPORTABLE SEGMENTS
(Unaudited)

	Primary Molybdenum	Manufacturing and Sales	Other Mining	Total PDMC
Nine Months Ended 2003				
Copper production (thousand short tons):				
Total production		5.1		965.2
Less minority participants shares		1.0		179.2
Net Phelps Dodge share		4.1		786.0
Copper sales (thousand short tons):				
Net Phelps Dodge share from own mines		4.1		798.9
Purchased copper		242.4		269.3
Total copper sales		246.5		1,068.2
Molybdenum production (thousand pounds):				
Primary - Henderson	15,778			15,778
By-product	21,938			21,938
Total production	37,716			37,716
Molybdenum sales (thousand pounds):				
Net Phelps Dodge share from own mines	39,783			39,783
Purchased molybdenum	6,210			6,210
Total molybdenum sales	45,993			45,993
($ in millions)				
Operating income (loss)	$ 0.1	21.1	(61.5)	121.1
Special items and provisions	$	(0.1)	(2.0)	(5.5)
Nine Months Ended 2002 (as restated)				
Copper production (thousand short tons):				
Total production		(0.2)		951.3
Less minority participants shares		(0.3)		185.3
Net Phelps Dodge share		0.1		766.0
Copper sales (thousand short tons):				
Net Phelps Dodge share from own mines		0.3		800.6
Purchased copper		264.2		333.7
Total copper sales		264.5		1,134.3
Molybdenum production (thousand pounds):				
Primary - Henderson	15,323			15,323

By-product	17,813			17,813
Total production	33,136			33,136
Molybdenum sales (thousand pounds):				
Net Phelps Dodge share from own mines	34,894			34,894
Purchased molybdenum	7,134			7,134
Total molybdenum sales	42,028			42,028
($ in millions)				
Operating income (loss)	$ 10.9	(0.8)	(18.3)	71.2
Special items and provisions	$	0.7	31.2	26.6

Refer to segment discussion on pages 46 through 51.

Revenues, operating costs and expenses of PDMC s segments include allocations that may not be reflective of market conditions. Additionally, certain costs are not allocated to the reportable segments. (Refer to pages 46 and 47 for further discussion.)

Sales of Copper (U.S. and South America) and Molybdenum

The Manufacturing and Sales segment is responsible for selling all copper produced at the U.S. mines. Intersegment revenues of the individual U.S. mines represent an internal allocation based on PDMC s sales to unaffiliated customers. Therefore, the following discussion and analysis combines the U.S. Mines and Other Mining segments with the Manufacturing and Sales segment. Additionally, the South American Mines sold approximately 50 percent of their copper to the Manufacturing and Sales segment in each of the quarters and nine months ended September 30, 2003 and 2002. Intersegment sales by the South American Mines are based upon arms-length prices at the time of the sale. Intersegment sales of any individual mine may not be reflective of the actual prices PDMC ultimately receives due to a variety of factors including additional processing, timing of sales to unaffiliated customers, and transportation premiums. These sales are reflected in the Manufacturing and Sales segment.

(Unaudited; $ in millions)

	Third Quarter	
	2003	2002
U.S. Mining Operations*		
Unaffiliated customers	$520.7	467.4
Intersegment elimination	(86.7)	(69.2)
	434.0	398.2
South American Mines**		
Unaffiliated customers	82.4	80.3
Intersegment	86.7	69.2
	169.1	149.5
Primary Molybdenum		
Unaffiliated customers	101.0	81.6
Intersegment		
	101.0	81.6
Total PDMC		
Unaffiliated customers	$704.1	629.3

(Unaudited; $ in millions)

	Nine Months Ended September 30,	
	2003	2002
U.S. Mining Operations*		
Unaffiliated customers	$1,448.4	1,409.2
Intersegment elimination	(214.7)	(225.6)
	1,233.7	1,183.6

South American Mines**		
Unaffiliated customers	282.0	270.4
Intersegment	214.7	225.6
	496.7	496.0
Primary Molybdenum		
Unaffiliated customers	270.3	205.9
Intersegment		
	270.3	205.9
Total PDMC		
Unaffiliated customers	$2,000.7	1,885.5

* U.S. Mining Operations combines the following segments: Morenci, Bagdad/Sierrita, Miami/Bisbee, Chino/Cobre, Tyrone, Manufacturing and Sales, and Other Mining.

** South American Mines combines the following segments: Candelaria, Cerro Verde and El Abra.

U.S. Mines, Other Mining and Manufacturing and Sales Segments Sales

Sales and other operating revenues to unaffiliated customers by U.S. Mines, Other Mining and Manufacturing and Sales increased $53.3 million, or 11 percent, in the 2003 third quarter compared with the 2002 third quarter. This increase primarily was due to higher average copper prices (approximately $55 million) and higher precious metals sales (approximately $3 million); partially offset by lower copper sales volumes (approximately $5 million).

Sales and other operating revenues to unaffiliated customers by U.S. Mines, Other Mining and Manufacturing and Sales increased $39.2 million, or 3 percent, in the first nine months of 2003 compared with the corresponding 2002 period. This increase primarily was due to higher average copper prices (approximately $83 million); partially offset by lower copper sales volumes (approximately $41 million).

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South American Mines Segments   Sales

South American Mines sales and other operating revenues to unaffiliated customers increased $2.1 million, or 3 percent, in the 2003 third quarter compared with the 2002 third quarter. This increase primarily was due to higher realized copper prices (approximately $21 million); partially offset by lower sales volumes of copper (approximately $17 million).

South American Mines sales and other operating revenues to unaffiliated customers increased $11.6 million, or 4 percent, in the first nine months of 2003 compared with the corresponding 2002 period. This increase primarily was due to higher realized copper prices (approximately $35 million) and higher precious metals sales (approximately $4 million); partially offset by lower sales volumes of copper (approximately $25 million).

Primary Molybdenum Segment   Sales

Primary Molybdenum sales and other operating revenues to unaffiliated customers increased $19.4 million, or 24 percent, in the 2003 third quarter compared with the 2002 third quarter. This increase primarily was due to higher average molybdenum prices (approximately $3 million) and higher sales volumes of molybdenum (approximately $15 million).

Primary Molybdenum sales and other operating revenues to unaffiliated customers increased $64.4 million, or 31 percent, in the first nine months of 2003 compared with the corresponding 2002 period. This increase primarily was due to higher average molybdenum prices (approximately $45 million) and higher sales volumes (approximately $18 million).

Operating Income (Loss) for Copper (U.S. and South America) and Molybdenum

In addition to the allocation of revenues, management allocates certain operating costs, expenses and capital of PDMC s segments that may not be necessarily reflective of market conditions. We also do not allocate all costs and expenses applicable to a mine or operation from the division or corporate offices. Accordingly, the segment information reflects management s determinations that may not be indicative of actual financial performance of each segment as if it was an independent entity.

(Unaudited; $ in millions)

	Third Quarter	
	2003	**2002**
		(As Restated)
U.S. Mining Operations*	$ 19.3	(11.9)
South American Mines**	40.7	6.9
Primary Molybdenum	(0.4)	10.7
Total PDMC	$ 59.6	5.7

(Unaudited; $ in millions)

	Nine Months Ended September 30,	
	2003	**2002**
		(As Restated)

U.S. Mining Operations*	$ 16.7	5.7
South American Mines**	104.3	54.6
Primary Molybdenum	0.1	10.9
Total PDMC	$ 121.1	71.2

* U.S. Mining Operations combines the following segments: Morenci, Bagdad/Sierrita, Miami/Bisbee, Chino/Cobre, Tyrone, Manufacturing and Sales, and Other Mining.

** South American Mines combines the following segments: Candelaria, Cerro Verde and El Abra.

U.S. Mining Operations Operating Income (Loss)

U.S. Mining Operations reported operating income of $19.3 million in the 2003 third quarter including $5.0 million of special, net pre-tax losses, compared with an operating loss of $11.9 million in the 2002 third quarter including $8.1 million of special, net pre-tax losses.

U.S. Mining Operations reported operating income of $16.7 million for the first nine months of

2003 including $5.5 million of special, net pre-tax losses, compared with operating income of $5.7 million in the corresponding 2002 period including $26.6 million of special, net pre-tax gains. (Refer to the separate discussion of PDMC s segments below for further detail.)

Note: Supplemental Data

The following table summarizes U.S. Mining Operations special items for 2003 and 2002 and the resultant earnings (losses) excluding these special items:

(Unaudited; $ in millions)

	Third Quarter	
	2003	2002
		(As Restated)
Special, pre-tax items	$ (5.0)	(8.1)
Segment operating earnings (losses) excluding special items	$ 24.3	(3.8)

(Unaudited; $ in millions)

	Nine Months Ended September 30,	
	2003	2002
		(As Restated)
Special, pre-tax items	$ (5.5)	26.6
Segment operating earnings (losses) excluding special items	$ 22.2	(20.9)

Note: Our non-GAAP measure of special items may not be comparable to similarly titled measures reported by other companies.

Morenci Segment Operating Income

The Morenci open-pit mine, located in southeastern Arizona, primarily produces electrowon copper cathode. We own an 85 percent interest in Morenci and apply the proportional consolidation method of accounting. Operating income of $19.8 million in the 2003 third quarter increased $19.1 million compared with the 2002 third quarter, primarily due to higher average copper prices (approximately $18 million) and slightly lower cost of copper production (approximately $1 million) primarily due to higher production volumes.

Operating income of $37.1 million for the first nine months of 2003 increased $11.7 million compared with the corresponding 2002 period, primarily due to higher average copper prices (approximately $21 million); partially offset by higher cost of copper production (approximately $11 million) primarily due to higher energy costs.

Bagdad/Sierrita Segment Operating Income

Our wholly owned Bagdad and Sierrita open-pit mines, located in northwest Arizona and near Green Valley, Arizona, respectively, mine copper sulfide and oxide ores. They produce copper and molybdenum concentrates. Since January 2002, the Bagdad and Sierrita mines have been producing between 50 and 70 percent of their capacity due to the economic environment. The 2003 third quarter operating income of $23.7 million increased $15.0 million compared with the 2002 third quarter, primarily due to higher average copper prices (approximately $9 million), favorable finished goods inventory change (approximately $5 million) and lower cost of copper production (approximately $3 million); partially offset by lower copper sales volumes (approximately $1 million). The lower cost of copper production of $3 million was primarily due to higher molybdenum by-product credits resulting from higher prices and volumes (approximately $12 million); partially offset by an unfavorable change in heap leach and work-in-process inventory ($2 million), higher mining and milling costs (approximately $4 million)

and higher electricity costs (approximately $3 million).

Operating income of $48.7 million for the first nine months of 2003 increased $39.8 million compared with the corresponding 2002 period, primarily due to lower cost of copper production (approximately $27 million), higher average copper prices (approximately $11 million) and favorable finished goods inventory change (approximately $2 million). The lower cost of copper production of $27 million primarily was due to higher molybdenum by-product credits resulting from higher prices and volumes (approximately $40 million); partially offset by higher electricity costs (approximately $7 million) and higher mining and milling costs ($4 million).

On April 28, 2003, the Company announced its copper concentrate-leaching demonstration plant at Bagdad, Arizona, had been commissioned ahead of schedule. It is now operating at design capacity. The Bagdad plant is the first commercial facility in the world to use high-temperature pressure leaching to treat chalcopyrite concentrates. The new technology should make it more economical to recover copper from

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chalcopyrite ores, which accounts for approximately 70 percent of the world s known copper reserves. Our immediate plans are to continue in the present mode of operation until the economic viability of the process is proven. Once we have completed this demonstration, we will be ready for larger scale commercial application where appropriate.

Miami/Bisbee Segment Operating Loss

Our wholly owned Miami open-pit mine, located in Miami, Arizona, produces electrowon copper cathode. Since January 2002, the Miami mine and refinery have been closed temporarily due to the economic environment. The Bisbee precipitation operation is located in southern Arizona. The 2003 third quarter operating loss of $0.7 million decreased $5.2 million compared with the 2002 third quarter, primarily due to the absence of pre-tax special losses of $2.3 million and lower cost of copper production (approximately $2 million) resulting from higher production and lower depreciation expense, and a favorable finished goods inventory change (approximately $1 million).

The operating loss of $4.5 million for the first nine months of 2003 decreased $9.7 million compared with the corresponding 2002 period, primarily due to lower cost of copper production (approximately $9 million) and lower pre-tax special losses of $1.8 million. Lower cost of copper production is attributable to higher production (approximately $5 million) and lower depreciation expense (approximately $4 million).

Chino/Cobre Segment Operating Income (Loss)

The Chino open-pit mine, located near Silver City, New Mexico, primarily mines copper sulfide and oxide ores. We own a two-thirds partnership interest in Chino and apply the proportional consolidation method of accounting. Since January 1, 2002, the Chino mine and smelter have been closed temporarily; however, residual leaching has continued and mining of leachable ore resumed in April 2003. Our wholly owned Cobre mine, which is adjacent to the Chino mine, has been on care-and-maintenance status since late 1998. The 2003 third quarter operating loss of $4.9 million increased $2.8 million compared with the 2002 third quarter, primarily due to higher cost of copper production (approximately $5 million); partially offset by higher average copper prices (approximately $1 million) and a higher precious metals margin (approximately $1 million). Higher cost of copper production of $5 million was primarily due to lower production from lower leach solution grades and flow rates (approximately $1 million), higher operating costs (approximately $3 million) and higher energy costs (approximately $1 million).

The operating loss was $9.8 million for the first nine months of 2003, compared with operating income of $4.9 million in the corresponding 2002 period. This decrease of $14.7 million was primarily due to lower copper sales volumes (approximately $4 million) and higher cost of copper production (approximately $12 million); partially offset by higher average copper prices (approximately $1 million). Higher cost of copper production of $12 million primarily was due to lower production from lower leach solution grades and flow rates (approximately $7 million), higher energy costs (approximately $3 million) and higher operating costs (approximately $2 million); partially offset by lower closure expense (approximately $1 million).

Tyrone Segment Operating Income (Loss)

Our wholly owned Tyrone open-pit mine, located near Tyrone, New Mexico, primarily mines copper oxide ore. It produces electrowon copper cathode. The 2003 third quarter operating loss of $5.5 million increased $6.4 million compared with the 2002 third quarter due to higher cost of copper production (approximately $8 million); partially offset by higher average copper prices (approximately $3 million). The higher cost of copper production included an unfavorable change in heap leach and work-in-process inventory (approximately $11 million) and lower production due to lower grade and recovery (approximately $4 million); partially offset by lower operating costs (approximately $5 million) and lower closure expense (approximately $1 million).

The operating loss of $14.4 million for the first nine months of 2003 increased $14.2 million compared with the corresponding 2002 period due to higher cost of copper production (approximately $17 million); partially offset by higher average copper prices (approximately $4 million). The higher cost of copper production of $17 million included an unfavorable change in heap leach and work-in-process inventory (approximately $31 million); partially offset by lower costs associated with mine plan changes and lower production (approximately $8 million) and lower closure expense from the adoption of SFAS No. 143 (approximately $8 million).

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South American Mines   Operating Income

South American Mines reported operating income in the 2003 third quarter of $40.7 million, compared with $6.9 million in the 2002 third quarter.

South American Mines reported operating income of $104.3 million for the first nine months of 2003, compared with $54.6 million for the first nine months of 2002.

(Refer to the separate discussion of PDMC s segments below for further detail.)

Candelaria Segment   Operating Income

The Candelaria open-pit mine is located near Copiapó in northern Chile and produces copper concentrates. We own an 80 percent partnership interest in Candelaria, a Chilean contractual mining company, and we apply the proportional consolidation method of accounting. Operating income of $22.4 million in the 2003 third quarter increased $14.7 million compared with the 2002 third quarter primarily due to higher average realized prices ($10 million), lower unit cost of copper production (approximately $3 million) and a favorable finished goods inventory change (approximately $2 million). The decrease in unit cost of copper production was primarily due to higher precious metals credits (approximately $2 million) and higher production due to a higher copper ore grade (approximately $1 million).

Operating income of $59.1 million for the first nine months of 2003 increased $18.0 million compared with the corresponding 2002 period primarily due to higher average copper prices (approximately $10 million), lower cost of copper production ($8 million) and higher gold sales margin ($4 million); partially offset by lower downstream margins (approximately $4 million). The decrease in unit cost of copper production of $8 million was primarily due to a higher copper ore grade (approximately $2 million), higher precious metals credits (approximately $2 million) and lower downstream rates (approximately $3 million).

Cerro Verde Segment   Operating Income

The Cerro Verde open-pit mine, located near Arequipa, Peru, produces electrowon copper cathode. We own approximately 82 percent of the common stock of Cerro Verde, which we fully consolidate with a minority interest. The 2003 third quarter operating income of $10.6 million increased $6.0 million from the 2002 third quarter primarily due to higher average copper prices (approximately $7 million); partially offset by higher cost of copper production (approximately $1 million) primarily due to higher operating expenses.

Operating income of $26.7 million for the first nine months of 2003 increased $8.5 million from the corresponding 2002 period primarily due to higher average copper prices (approximately $10 million) and higher copper sales volumes (approximately $1 million); partially offset by higher cost of copper production (approximately $2 million) primarily due to the change in heap leach and work-in-process inventory (approximately $1 million) and higher operating expenses (approximately $1 million).

El Abra Segment   Operating Income (Loss)

The El Abra open-pit mine is located in northern Chile and produces electrowon copper cathode. We own a 51 percent partnership interest in El Abra, a Chilean contractual mining company, and we apply the proportional consolidation method of accounting. The remaining 49 percent interest is owned by Corporación Nacional del Cobre de Chile (CODELCO), a Chilean state-owned company. The 2003 third quarter operating income of $7.7 million increased $13.1 million from the 2002 third quarter primarily due to higher average copper prices (approximately $12 million) and lower cost of copper production (approximately $1 million). Lower production costs reflected higher production due to higher ore grade and recovery (approximately $5 million) and a favorable change in heap leach and work-in-process inventory (approximately $2 million); partially offset by higher depreciation expense (approximately $1 million) and higher operating expenses ($4 million).

Operating income of $18.5 million for the first nine months of 2003 increased $23.2 million from the corresponding 2002 period primarily due to higher average copper prices (approximately $17 million) and lower cost of copper production (approximately $5 million). Lower production costs reflected a favorable change in heap leach and work-in-process inventory (approximately $10 million), higher production levels (approximately $3 million) and lower energy costs (approximately $3 million); partially offset by higher depreciation expense (approximately $3 million) and higher operating expenses ($7 million).

Primary Molybdenum Operating Income (Loss)

Primary Molybdenum includes our wholly owned Henderson and Climax molybdenum mines in Colorado and conversion facilities in the United States and Europe. Henderson produces high-purity, chemical-grade molybdenum concentrates, which are further processed into value-added molybdenum chemical products. Climax is currently on care-and-maintenance status. We expect to bring Climax into production concurrent with the exhaustion of the Henderson molybdenum mine reserves for continued long-term primary molybdenum supply for the chemicals business.

Primary Molybdenum operations reported an operating loss in the 2003 third quarter of $0.4 million, compared with operating income of $10.7 million in the third quarter of 2002. The 2003 third quarter decrease of $11.1 million primarily was due to higher purchased costs of third-party molybdenum as well as by-product molybdenum purchased from certain of our U.S. copper operations (approximately $18 million), higher production costs (approximately $8 million) and lower inventory build credits (approximately $3 million); partially offset by higher average molybdenum prices (approximately $3 million) and higher sales volumes (approximately $15 million). The higher production costs primarily resulted from higher conversion costs (approximately $4 million), mining costs (approximately $2 million) and energy and maintenance costs (approximately $2 million).

Primary Molybdenum operations reported operating income of $0.1 million for the first nine months of 2003, compared with operating income of $10.9 million for the first nine months of 2002. The decrease of $10.8 million primarily was due to higher purchased costs of third-party molybdenum as well as by-product molybdenum purchased from certain of our U.S. copper operations (approximately $48 million), higher production costs (approximately $21 million), higher shutdown expenses ($2 million) and higher marketing costs ($2 million); partially offset by higher average molybdenum prices (approximately $45 million) and higher sales volumes (approximately $18 million). The higher production costs primarily resulted from higher mining costs (approximately $7 million), conversion costs (approximately $8 million), energy costs (approximately $3 million) and higher maintenance costs (approximately $2 million).

PDMC Other Matters

In the fourth quarter of 2003, we will update our mine plans and associated ore reserves. The mine plans are based upon management s estimates including long-term copper and molybdenum prices reflective of recent historic average copper and molybdenum price cycles. Upon completion of these mine plans, we will conduct impairment analyses if warranted as a result of any significant changes.

We have approximately 700 million to 760 million pounds of curtailed annual copper production capacity (100 percent basis), depending on near-term mine plans, that could be brought to market. At the end of the 2003 third quarter, such capacity approximated 705 million pounds (660 million pounds in the United States and 45 million pounds internationally). This curtailed capacity is located at eight of our mine sites, all with existing infrastructures. Approximately 605 million to 665 million pounds of this curtailed annual capacity is located at our active mine sites and approximately 95 million pounds is located at inactive sites (50 million at Cobre and 45 million at Ojos del Salado).

Any decision to recommence full operations at mine sites at which we have curtailed capacity will depend on several factors including then-prevailing copper prices, management s assessment of copper market fundamentals, and its estimates of future copper price trends and the extent to which any such new production is necessary for the efficient integration of the Company s other copper-producing operations at that time. Management s assessment of copper market fundamentals will reflect its judgment about future global economic activity and demand, and its estimates of the likelihood and timing of curtailed or new projects of competitors being placed into production. While there is no single copper price threshold that would necessarily trigger the recommencement of full operations at any of these sites, management does not expect to recommence operations until there has been a significant improvement in copper market fundamentals or a production integration inefficiency that could be alleviated by such recommencement.

During the 2003 third quarter, PDMC shifted a portion of its copper production from its Tyrone mine to its Chino mine, both in New Mexico. Annual copper production from New Mexico operations will stabilize in the range of 200 million to 230 million pounds per year. As a result of this shift in production, Tyrone conducted an impairment analysis. The analysis indicated that Tyrone s carrying value continued to be recoverable.

Any material change in the price we receive for copper, or in PDMC s implied unit cost of

copper production, has a significant effect on our results. Based on expected 2003 annual production of approximately 2.1 billion pounds of copper, each 1 cent per pound change in the average annual copper price, or in average annual implied unit cost of copper production, causes a variation in annual operating income before taxes of approximately $21 million.

Our current annual molybdenum production is approximately 52 million pounds (approximately 22 million pounds from primary mines and 30 million pounds from by-product mines). Approximately 70 percent of our molybdenum contracts are priced based on the average of the previous 30 days of published prices (i.e., Platts *Metals Week*, Ryan s Notes, or Metal Bulletin), plus premiums. Accordingly, each $1.00 per pound change in our average annual realized molybdenum price causes a variation in annual operating income before taxes of approximately $36 million (subject to any negotiated limitations in outstanding customer agreements).

From time to time, we may purchase or sell copper price protection contracts for a portion of our expected future mine production. We do this to limit the effects of potential decreases in copper selling prices. We did not have any outstanding copper price protection contracts on September 30, 2003.

In July 2003, the Company announced that one of its wholly owned subsidiaries agreed to acquire Heisei Minerals Corporation s (Heisei) one-third general partnership interest in Chino Mines Company (Chino) in New Mexico. In connection with this transaction, Heisei will pay on behalf of Chino, approximately $64 million in cash to a trust to fund closure, closeout and reclamation obligations of Chino, which represents a one-third share of an estimate by the state of New Mexico of the amount of financial assurance Chino must provide in connection with its current permits. In addition, Heisei will pay $50 million to the Company s subsidiary to cover other Heisei obligations. Completion of the transaction, which is subject to certain closing conditions, is expected to occur in the 2003 fourth quarter. Due to our business expectations and plans, which result in significant differences in the operating life of Chino as compared with Heisei, we currently expect to recognize an extraordinary gain of approximately $50 million to $65 million upon completing the transaction, subject to finalization of fair value estimates.

PDMC New Mexico Reclamation

Mining and smelting operations with leaching, tailing ponds, surface impoundments and other discharging facilities in New Mexico are subject to regulation under the New Mexico Water Quality Act and the Water Quality Control Commission (WQCC) Regulations. The Chino, Cobre and Tyrone mines and the Hidalgo smelter each have obtained multiple discharge permits for their operations, which specify operational, monitoring and notification requirements. These permits are issued for five-year terms and require renewal following the end of each permit term. The WQCC Regulations authorize the New Mexico Environment Department (NMED), which administers the discharge permit program, to require the submission of closure plans showing how applicable discharge permit requirements will be met following closure. Under certain circumstances, NMED also may require submission and approval of abatement plans to address the exceedance of applicable water quality standards.

Further, Chino, Cobre, Tyrone and Hidalgo must submit closure plans for their operations. Hidalgo has an approved closure plan under its discharge permit. The three mines have submitted closure plans, which have been combined with closeout plans under the New Mexico Mining Act (NMMA), as discussed below. The proposed closure plans currently are subject to approval by NMED as part of separate discharge permits for closure for each of the three operations that would supplement the existing discharge permits (hereinafter referred to as closure permits). The proposed closure permits contain a number of permit conditions that would modify the proposed closure plans. Chino Mines Company and NMED reached agreement in December 2001 on proposed closure permit conditions presented at a public hearing in February 2002. On January 23, 2003, NMED s hearing officer issued a decision approving the closure permit as proposed by NMED and Chino, with minor changes. NMED issued a permit consistent with the hearing officer s decision on February 24, 2003. An appeal has been filed by a local environmental group, which Chino has moved to dismiss on procedural grounds. Phelps Dodge Tyrone, Inc. and NMED were unable to reach agreement on permit terms before a public hearing held in May 2002, and presented competing permit proposals. Other parties who participated in the public hearing presented their own proposals. On March 7, 2003, Tyrone received the hearing officer s decision on its permit, which generally adopted NMED s proposal. On April 2, 2003, Tyrone filed an appeal of the hearing officer s decision with WQCC. NMED

issued a permit in accordance with the hearing officer s decision on April 8, 2003, which Tyrone also has appealed. A hearing on Tyrone s appeal has been set before the WQCC. Cobre Mining Company and NMED also have not reached agreement on the terms of a closure permit. The closure permit for Cobre Mining Company does not require a public hearing and may be issued by NMED at any time.

Chino, Cobre and Tyrone also are subject to permit requirements under NMMA, which was passed in 1993. Following adoption of the New Mexico Mining Act Rules (NMMAR) in 1994, Chino, Cobre and Tyrone received initial permits as existing mining operations under NMMAR in 1997. These permits require revisions to incorporate approved closeout plans, which consist of plans for reclamation of the mining operations to achieve a self-sustaining ecosystem or an approved post-mining land use following cessation of operations at a mine. Existing mining operations may seek a waiver of these reclamation standards for open pits and waste units based upon a demonstration that achieving these standards is technically or economically infeasible or environmentally unsound, as long as measures will be taken to meet air and water quality standards following closure.

NMMAR originally required approval of a closeout plan for an existing mining operation by December 31, 1999, based upon an extension granted by the Director of the Mining and Minerals Division (MMD). NMMAR subsequently was amended to extend the deadline for closeout plan approval until December 31, 2001, and later to October 1, 2002. NMMAR contains a requirement that NMED must provide MMD with a determination that a closeout plan meets applicable environmental standards, including air and water quality standards, before MMD can approve the closeout plan. NMED s policy is to issue this determination after it has issued closure permits for the facility that submits the closeout plan. In early 2001, Chino, Cobre and Tyrone submitted comprehensive closure/closeout plans (CCPs) to both NMED and MMD intended to address the requirements of both the WQCC Regulations and NMMAR. Approval of the CCPs under NMMAR would require the granting of waivers by MMD as authorized under NMMAR. The CCPs were the subject of the public hearings before NMED for Chino and Tyrone, as discussed above.

As of October 1, 2002, NMED had not issued closure permits for Chino, Cobre or Tyrone. Consequently, as of October 1, 2002, MMD had not approved closeout permits for these three mines. MMD issued Notices of Violation (NOVs) to Chino, Cobre and Tyrone because the three mines did not obtain approved closeout plans by the October 1, 2002, deadline. The NOVs were modified by the Mining Commission following a public hearing to set new deadlines for closeout plan approval tied to NMED permit actions. Based on NMED s permit actions, closeout plan approval under the Mining Commission s Order for Chino was due by September 24, 2003, but was extended by the MMD Director to November 24, 2003. The closeout plan approval date for Tyrone is April 8, 2004. The closeout plan approval deadline for Cobre will be nine months from the date of NMED s permit issuance, which is currently pending.

NMMAR contains specific requirements regarding financial assurance that must be provided to MMD to assure that sufficient funds would be available to MMD to carry out the closeout plan in the event of a default by the permittee. NMED also may require financial assurance under the WQCC Regulations. The financial assurance requirements are based upon the net present value of estimated costs to carry out the requirements of the closure permit and the approved closeout plan, assuming the state would hire a third-party contractor to conduct the work. Actual reclamation costs may differ significantly from the costs estimated under the permits due to advances in technology and reclamation techniques and opportunities to prepare each site for more efficient reclamation through careful development of the site over time. Consequently, the estimated costs under the permits are higher than the cost the Company would be expected to incur if the Company performed the work.

The CCPs submitted in early 2001 contained cost estimates of approximately $100 million for Chino, $121 million for Tyrone, and $9 million for Cobre, based upon unescalated and undiscounted capital and operating costs over a 30-year operating period. The closure permit negotiated by NMED and Chino Mines Company and approved by the NMED hearing officer has an estimated cost of approximately $394 million, based upon third-party unescalated and undiscounted capital and operating costs over a 100-year operating period, including the cost of technical studies required under the permit. The Company s two-thirds share of NMED s $394 million estimate is approximately $263 million and our joint venture partner s cost share is approximately $131 million. We estimate total costs for Chino Mines Company to achieve the closure standards required by NMED to be approximately $287 million (100 percent basis); that estimate is approximately one-

third lower than the financial assurance cost estimate as a result of the Company s historical cost advantages, savings from the use of the Company s own personnel and equipment versus third-party contract costs, and opportunities to prepare the site for more efficient reclamation. The financial assurance cost estimate includes approximately $10 million (100 percent basis) of costs the Company has recognized in environmental reserves. The Company s two-thirds share of these costs is approximately $191 million and our joint venture partner s cost share is approximately $96 million. At September 30, 2003, and December 31, 2002, we had accrued approximately $18 million and $8 million, respectively, (two-thirds basis) for reclamation at Chino. The NMED cost estimate for Chino is subject to further review, and possible adjustment, by MMD under NMMAR.

NMED estimated the cost to carry out the requirements of its proposed closure permits for Tyrone at approximately $440 million, without discounting or escalation, under NMED s proposal at the May 2002 hearing; Tyrone estimated the cost of its proposal at approximately $328 million, without discounting or escalation over a 100-year operating period. NMED has not yet supplied its proposed cost estimate for Cobre. The proposed terms of the closure permits would require additional studies over the five-year term of the permits to refine the closure plan. The plan requirements and cost estimates may increase or decrease based upon the results of the studies and other factors, including changes in technology, completion of some closure and reclamation work, and inflation.

Based upon NMED s undiscounted financial assurance cost estimates for the Tyrone plan of approximately $440 million, and considering the same cost advantages as indicated in the above discussion regarding Chino, we estimate the Company s costs to achieve the closure standards under that estimate to be approximately $257 million for Tyrone. The Company has not obtained approval from NMED of an estimate of its cost to achieve the closure standards that would be required by the hearing officer s decision. The Company s current cost estimate for Cobre of approximately $9 million will be updated with the issuance of the discharge permit. At September 30, 2003, and December 31, 2002, we had accrued closure costs of approximately $61 million and $27 million, respectively, at Tyrone and approximately $7 million and $2 million, respectively, at Cobre.

Following NMED s issuance of the closure permits, Chino, Cobre and Tyrone are required to submit proposals for financial assurance based upon the permit requirements and subject to NMED s approval. Under the proposed closure permit terms, the amount of financial assurance may be based upon the net present value (NPV) of the estimated cost for a third-party to implement the plan, using discount and escalation rates specified in the permit. These amounts are expected to be substantially lower than the undiscounted and unescalated cost estimates. For example, based upon the cost estimate approved by NMED, the financial assurance amount for Chino could be approximately $191 million. This amount is based on annual escalation rates of approximately 3.2 percent for long-term water treatment costs and approximately 3.6 percent for other costs and discount rates of 5 percent for years one through 12 of the plan and 8 percent for years 13 through 100.

NMMAR requires that financial assurance for a closeout plan be approved and put in place before MMD can approve the closeout plan. Chino and Tyrone have provided approximately $56 million and $58 million of financial assurance in the form of surety bonds, respectively, to NMED under the terms of several discharge permits. The closure and financial assurance requirements of these permits have been superseded by the recently issued NMED closure permits. Consequently, the Company has advised NMED that this financial assurance should be terminated and replaced by new financial assurance under the terms of the new closure permits. Chino and Tyrone have submitted financial assurance proposals in accordance with the schedules under their NMED closure permit proposing financial assurance primarily in the form of corporate performance guarantees from the Company. Cobre also has approximately $2 million of financial assurance in place held jointly by NMED and MMD. Following NMED s issuance of the closure permits, and prior to MMD s approval of the closeout plans, Chino, Tyrone and Cobre will be required to provide substantial amounts of additional financial assurance to cover the amounts of the approved cost estimates. Hidalgo currently has provided financial assurance in the amount of approximately $11 million under its discharge permit.

In late May 2003, the Company and the state announced an agreement on a framework for the Company to provide financial assurance for Chino, Tyrone and Cobre under both NMMAR and WQCC Regulations. Under this agreement, the Company will provide financial assurance based upon the NPV of the cost estimates in a total amount of approximately $484 million. Initially, approximately 70 percent of this amount will be covered by a corporate performance guarantee.

The balance of approximately 30 percent will be provided as trust funds and collateral, including cash and liens on certain owned parcels of non-mining real estate located in New Mexico. In addition, the Company agreed to expend at least $30 million on accelerated closure and reclamation work over the next 10 years. The amounts to be covered by guarantees will be reduced to approximately 64 percent by the amount of accelerated reclamation performed.

Following the July announcement of the Company s agreed upon acquisition of Heisei s one-third interest in Chino and Heisei s agreement to provide funding for one-third of the Chino financial assurance in a trust fund, the Company and the state engaged in further discussions regarding the details of the financial assurance to be provided under the May 2003 framework. On October 1, 2003, the Company and the state announced the signing of an addendum to the May agreement. Under the addendum, Chino s financial assurance will consist of one-third as a trust fund and the remaining two-thirds as a guarantee. Completion of the one-third acquisition from Heisei, which is subject to certain closing conditions, is expected to occur in the 2003 fourth quarter. Tyrone will place an initial amount of $17 million in a trust fund, increasing to $27 million over five years. About $62.8 million in collateral will be required initially to cover the 30 percent of Tyrone s financial assurance not covered by a guarantee. Cobre will have a $1 million trust fund, increasing to $3 million over five years, and an initial amount of about $7.4 million in collateral. The addendum also sets a goal of a total of $109.8 million, including earnings on the trust funds, in all three trust funds at the end of a five-year period. The addendum retains the Company s commitment to expend at least $30 million over the next 10 years on accelerated reclamation of inactive portions of the three mines, and adds a schedule identifying particular projects and anticipated timeframes for reclamation.

On October 10, 2003, Tyrone signed a Settlement Agreement with NMED to fulfill a major portion of the commitment to expend at least $30 million for reclamation by agreeing to reclaim all of the inactive tailing impoundments at Tyrone over an eight-year period. The Settlement Agreement was executed on behalf of NMED on October 15, 2003.

Finalization of the financial assurance is subject to completion of the permitting process, including additional public comment and hearings. MMD also has proposed some changes to NMMAR for consideration by the Mining Commission, which could affect the final financial assurance package.

RESULTS OF PHELPS DODGE INDUSTRIES

PDI, our manufacturing division, produces engineered products principally for the global energy, telecommunications, transportation and specialty chemicals sectors. Its operations are characterized by products with significant market share, internationally competitive cost and quality, and specialized engineering capabilities. The manufacturing division includes our Specialty Chemicals segment and our Wire and Cable segment. Our Specialty Chemicals segment includes Columbian Chemicals Company and its subsidiaries (Columbian Chemicals or Columbian). Our Wire and Cable segment consists of three worldwide product line businesses including magnet wire, energy and telecommunications cables, and specialty conductors.

(Unaudited; $ in millions)

	Third Quarter	
	2003	**2002**
Sales and other operating revenues to unaffiliated customers:		
Specialty Chemicals	$ 152.0	138.5
Wire and Cable	175.0	173.4
	$ 327.0	311.9
Operating income (loss):		
Specialty Chemicals	$ 8.4	12.1
Wire and Cable	5.8	(19.1)
	$ 14.2	(7.0)

(Unaudited; $ in millions)

	Nine Months Ended September 30,	
	2003	2002
Sales and other operating revenues to unaffiliated customers:		
Specialty Chemicals	$480.2	408.3
Wire and Cable	490.4	532.7
	$970.6	941.0
Operating income (loss):		
Specialty Chemicals	$ 37.5	42.3
Wire and Cable	12.7	(13.0)
	$ 50.2	29.3

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PDI Sales

PDI reported sales to unaffiliated customers of $327.0 million in the 2003 third quarter, compared with $311.9 million in the 2002 third quarter. The increase of $15.1 million was due to higher specialty chemicals sales of $13.5 million resulting primarily from higher average unit selling prices in Europe and South America (approximately $8 million) due to higher feedstock-related increases and higher foreign currency translation gains (approximately $8 million). Additionally, wire and cable sales were slightly higher by $1.6 million due to higher sales volumes of wire and cable in Brazil, Central America and Africa (approximately $8 million); partially offset by lower sales volumes in North America (approximately $6 million).

PDI reported sales to unaffiliated customers of $970.6 million for the first nine months of 2003, compared with $941.0 million in the corresponding 2002 period. The increase of $29.6 million was due to higher specialty chemicals sales of $71.9 million resulting from higher average unit selling prices worldwide (approximately $52 million) due to general market increases and higher feedstock-related increases, higher foreign currency translation gains (approximately $14 million) and slightly higher sales volumes (approximately $6 million). Wire and cable sales were $42.3 million lower due to lower sales volumes as a result of reduced demand stemming from continuing global economic uncertainty.

PDI Operating Income (Loss)

PDI reported operating income of $14.2 million in the 2003 third quarter, including a special pre-tax gain of $0.4 million, compared with an operating loss of $7.0 million in the 2002 third quarter, including a net special pre-tax loss of $21.4 million.

PDI reported operating income of $50.2 million for the first nine months of 2003, including a special, net pre-tax gain of $3.6 million, compared with operating income of $29.3 million in the corresponding 2002 period, including a net special pre-tax loss of $21.4 million.

(Refer to the separate discussion of PDI s Specialty Chemicals and Wire and Cable segments below for further detail.)

Note: Supplemental Data

The following table summarizes PDI s special items for the third quarters and first nine months of 2003 and 2002 and the resultant earnings excluding these special items:

(Unaudited; $ in millions)

	Third Quarter	
	2003	2002
Operating income (loss)	$14.2	(7.0)
Special, pre-tax items	0.4	(21.4)
Segment operating earnings excluding special items	$13.8	14.4

(Unaudited; $ in millions)

	Nine Months Ended September 30,	
	2003	2002
Operating income	$50.2	29.3

Special, pre-tax items	3.6	(21.4)
Segment operating earnings excluding special items	$46.6	50.7

Note: Our non-GAAP measure of special items may not be comparable to similarly titled measures reported by other companies.

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Special items and provisions in operating income were as follows:

(Unaudited; $ in millions)

	Third Quarter	
	2003	2002
September 2002 restructuring programs	$	(23.0)
Environmental provisions, net	0.4	0.3
Reassessment of prior restructuring programs		1.3
Special, pre-tax items	$0.4	(21.4)

(Unaudited; $ in millions)

	Nine Months Ended September 30,	
	2003	2002
Termination of a foreign postretirement benefit plan	$3.2	
September 2002 restructuring programs		(23.0)
Environmental provisions, net	0.4	0.3
Reassessment of prior restructuring programs		1.3
Special, pre-tax items	$3.6	(21.4)

Note: Our non-GAAP measure of special items may not be comparable to similarly titled measures reported by other companies.

Specialty Chemicals Operating Income

Specialty Chemicals reported operating income in the 2003 third quarter of $8.4 million, compared with $12.1 million in the 2002 third quarter. The 2003 third quarter decrease of $3.7 million primarily was due to lower sales volumes in Europe (approximately $2 million), higher manufacturing expense primarily for increased turnaround activity, higher utility costs and depreciation (approximately $8 million), and the absence of a special, pre-tax gain of $1.1 million in the 2002 third quarter. These were partially offset by higher *Quest for Zero* improvements of approximately $4 million and improved variable margins primarily in Europe (approximately $4 million).

Specialty Chemicals reported operating income of $37.5 million for the first nine months of 2003 including a special, net pre-tax gain of $3.2 million, compared with operating income of $42.3 million for the first nine months of 2002 including a special, net pre-tax gain of $1.1 million. Excluding special items, operating income decreased $6.9 million due to higher maintenance expense, depreciation, legal fees, research and development expense, and benefits expense (approximately $15 million), which was minimized due to *Quest for Zero* improvements of approximately $8 million.

Note: Supplemental Data

The following table summarizes Specialty Chemicals special items for the quarters and nine months ended September 30, 2003 and 2002, and the resultant earnings excluding these special items:

(Unaudited; $ in millions)

	Third Quarter	
	2003	2002
Special, pre-tax items	$	1.1
Segment operating earnings excluding special items	$8.4	11.0

(Unaudited; $ in millions)

	Nine Months Ended September 30,	
	2003	2002
Special, pre-tax items	$ 3.2	1.1
Segment operating earnings excluding special items	$34.3	41.2

Note: Our non-GAAP measure of special items may not be comparable to similarly titled measures reported by other companies.

Wire and Cable Operating Income (Loss)

Wire and Cable reported operating income in the 2003 third quarter of $5.8 million including a special, net pre-tax gain of $0.4 million, compared with an operating loss of $19.1 million in the 2002 third quarter including a special, net pre-tax loss of $22.5 million. Wire and Cable s operating income increased primarily due to the absence of a special, pre-tax loss of $23.0 million associated with the temporary closure of the Laurinburg, North Carolina, magnet wire plant, the temporary closure of the West Caldwell, New Jersey, High Performance Conductors facility, and restructuring and consolidation of certain administrative functions in the 2002 third quarter. Additionally, *Quest for Zero* improvements increased by approximately $2 million in the 2003 third quarter compared with the 2002 third quarter.

Wire and Cable reported operating income of $12.7 million for the first nine months of 2003 including a special, net pre-tax gain of $0.4 million, compared with an operating loss of $13.0 million for the first nine months of 2002 including a special, net pre-tax loss of $22.5 million. Excluding special items, Wire and Cable s operating income increased $2.8 million due to *Quest for Zero* improvements of approximately $6 million; partially offset by lower sales volumes and prices due to reduced global demand.

Note: Supplemental Data

The following table summarizes Wire and Cable s special items for the quarters and nine months ended September 30, 2003 and 2002, and the resultant earnings excluding these special items:

(Unaudited; $ in millions)

	Third Quarter	
	2003	**2002**
Special, pre-tax items	$0.4	(22.5)
Segment operating earnings excluding special items	$5.4	3.4

(Unaudited; $ in millions)

	Nine Months Ended September 30,	
	2003	**2002**
Special, pre-tax items	$ 0.4	(22.5)
Segment operating earnings excluding special items	$12.3	9.5

Note: Our non-GAAP measure of special items may not be comparable to similarly titled measures reported by other companies.

OTHER MATTERS RELATING TO THE STATEMENT OF CONSOLIDATED OPERATIONS

Selling and General Administrative Expense

Our selling and general administrative expense increased $7.8 million in the 2003 third quarter compared with the 2002 third quarter. The increase in the 2003 third quarter primarily resulted from higher pension and retirement benefits (approximately $2 million), a mark-to-market adjustment of a stock unit plan (approximately $2 million), higher legal fees (approximately $1 million) and directors and officers liability insurance premiums (approximately $1 million).

Our selling and general administrative expense increased $14.3 million for the first nine months of 2003 compared with the corresponding 2002 period. The increase primarily resulted from higher legal fees associated with SEC reviews, various litigation, and other legal matters (approximately $4 million), directors and officers liability insurance premiums (approximately $2 million), amortization for restricted stock (approximately $2 million), pension and retirement benefits ($2 million), a mark-to-market adjustment on a stock unit plan ($2 million) and rent expense (approximately $1 million).

Exploration and Research Expense

Our net exploration and research expense was $12.2 million in the 2003 third quarter, compared with $10.7 million in the 2002 third quarter. The increase primarily resulted from slightly higher PDMC research expense (approximately $1 million) and exploration expense

($1 million).

Net exploration and research expense was $34.7 million for the first nine months of 2003, compared with $28.6 million in the corresponding 2002 period. The increase primarily resulted from slightly higher PDMC research expense (approximately $4 million) and exploration expense (approximately $2 million).

Interest Expense

Interest expense decreased $4.5 million in the 2003 third quarter compared with the 2002 third quarter. The decrease in the 2003 third quarter primarily was attributable to reductions related to the payoff of long-term debt (approximately $2 million) and project financing in 2002 (approximately $3 million).

Interest expense decreased $33.5 million for the first nine months of 2003 compared with the corresponding 2002 period. The decrease was primarily attributable to reductions related to the payoff of long-term debt (approximately $26 million) and project financing in 2002 (approximately $8 million).

Miscellaneous Income (Expense), Net

Miscellaneous income (expense), net, increased $1.2 million in the 2003 third quarter compared with the 2002 third quarter. The increase for the 2003 third quarter resulted primarily from mark-to-market benefits on non-qualified pension plan assets ($2.3 million), foreign currency exchange gains ($0.9 million) and higher interest income ($0.7 million); partially offset by higher shutdown expenses ($2.9 million).

Miscellaneous income (expense), net, increased $12.7 million for the first nine months of 2003 compared with the corresponding 2002 period. The increase resulted primarily from the gain on sale of a cost-basis wire and cable investment ($6.4 million), mark-to-market benefits on non-qualified pension plan assets ($5.8 million), foreign currency exchange gains ($3.8 million) and the absence of 2002 cost-basis investment write-downs ($1.2 million); partially offset by higher shutdown expenses ($6.8 million).

Benefit (Provision) for Taxes on Income

The Company s income tax provision for the 2003 third quarter principally resulted from (i) taxes on earnings at international operations ($14.0 million) that cannot be offset by losses at domestic operations and (ii) a current-year loss carryback benefit for U.S. operations ($2.0 million). The Company s income tax provision for the nine months ended September 30, 2003, primarily comprised the following: (i) taxes on earnings at international operations ($41.2 million) that cannot be offset by losses at domestic operations, (ii) a benefit from finalizing year-end 2002 estimates in the Company s 2002 U.S. tax return filed in June 2003 ($4.2 million) and (iii) a current-year loss carryback benefit for U.S. operations ($3.1 million).

The Company s income tax benefit for the 2002 third quarter comprised the following items: (i) an additional $28.1 million special tax benefit associated with 2001 net operating losses that, based on new tax legislation, may be carried back to recover prior years taxes; (ii) a $5.0 million benefit recognized for the 2002 third quarter net operating losses that, based on the March enactment of the Job Creation and Worker Assistance Act of 2002, may also be carried back to recover prior years taxes; and (iii) a $2.0 million expense for taxes on earnings at international operations. The Company s income tax benefit for the nine months ended September 30, 2002, comprised the following items: (i) a $66.6 million tax benefit associated with the carryback of 2001 net operating losses that, based on new tax legislation, may be carried back to recover prior years taxes; (ii) a $39.8 million benefit recognized for the first nine months of 2002 net operating losses, based on new tax legislation; (iii) a $17.8 million expense for taxes on earnings at international operations; and (iv) a $13.0 million benefit for release of deferred taxes previously provided.

Cumulative Effect of Accounting Change

On January 1, 2003, we adopted SFAS No. 143, Accounting for Asset Retirement Obligations. With the adoption of this Statement, we recognize asset retirement obligations (AROs) as liabilities when incurred, with the initial measurement at fair value. These liabilities will be accreted to full value over time through charges to income. In addition, an asset retirement cost is capitalized as part of the related asset s carrying value and will subsequently be depreciated over the asset s useful life. Our AROs consist primarily of costs associated with mine reclamation and closure activities. These activities, which tend to be site specific, generally include costs for earthwork, revegetation, water treatment and demolition. Upon adoption, we recorded an increase to our closure and reclamation reserve of approximately $2.5 million, net, an increase to our mining properties assets and intangibles of approximately $12.2 million and a cumulative gain of $8.4 million, net of deferred taxes. For the quarter and nine months ended September 30, 2003, the effect of adopting SFAS No. 143 decreased loss before cumulative effect of accounting change by approximately $3.6 million, or 4 cents per common share, and $14.5 million, or 16 cents per common share, respectively.

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The following table summarizes the balance sheet impact associated with the adoption of SFAS No. 143:

(Unaudited; $ in millions)

	December 31, 2002 As Reported*	SFAS No. 143 Adoption Impact	January 1, 2003 After Adoption
Mining properties	$ 907.4	63.8**	971.2
Mining properties accumulated depreciation	(197.1)	(53.2)	(250.3)
Net mining properties assets	$ 710.3	10.6	720.9
Intangibles	$ 439.5	3.6**	443.1
Intangibles accumulated amortization	(93.6)	(2.0)	(95.6)
Net intangibles	$ 345.9	1.6	347.5
Asset retirement obligation liability	$ 138.6	10.4***	149.0

* Reflects the reclassification of South American mining concessions from property, plant and equipment, net to intangible assets (refer to Note 3, Reclassification of Intangible Assets, for further discussion).

** Amounts include $84.0 million and $7.5 million of additions related to recording an asset retirement cost, offset by $20.2 million and $3.9 million to reclassify amounts recognized as ore reserves in purchase accounting.

*** Amount consists of $2.5 million of liabilities recognized at adoption and $7.9 million of reclassifications related to closure obligations from other liabilities at adoption.

The *pro forma* effects of the application of SFAS No. 143 as if this Statement had been adopted on January 1, 2002, are presented below:

(Unaudited; $ in millions except per share data)

	Third Quarter 2002
Loss before cumulative effect of accounting change as reported	$ (53.7)
Reduced cost of products sold, net of tax	4.9
Additional depreciation expense, net of tax benefit	(0.5)
Pro forma loss before cumulative effect of accounting change	$ (49.3)
Loss per common share before cumulative effect of accounting change:	
Basic and diluted as reported	$ (0.64)
Basic and diluted *pro forma*	$ (0.59)
Net loss as reported	$ (53.7)
Pro forma net loss	$ (49.3)
Loss per common share:	
Basic and diluted as reported	$ (0.64)
Basic and diluted *pro forma*	$ (0.59)

(Unaudited; $ in millions except per share data)

	Nine Months Ended September 30,	
	2003	2002
Loss before cumulative effect of accounting change as reported	$(38.9)	(89.9)
Reduced cost of products sold, net of tax		14.2
Additional depreciation expense, net of tax benefit		(1.4)
Pro forma loss before cumulative effect of accounting change	$(38.9)	(77.1)
Loss per common share before cumulative effect of accounting change:		
Basic and diluted as reported	$(0.55)	(1.15)
Basic and diluted *pro forma*	$(0.55)	(1.00)
Net loss as reported	$(30.5)	(112.8)
Pro forma net loss	$(38.9)	(100.0)
Loss per common share:		
Basic and diluted as reported	$(0.46)	(1.43)
Basic and diluted *pro forma*	$(0.55)	(1.28)

The *pro forma* asset retirement obligation liability balances as if SFAS No. 143 had been adopted on January 1, 2002, are as follows:

(Unaudited; $ in millions)

Pro forma asset retirement obligation liability	January 1, 2002	$ 138.1
Pro forma asset retirement obligation liability	December 31, 2002	$ 149.0

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill and intangible assets that have indefinite useful lives are not amortized, but rather tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. Upon completion of the transitional impairment tests, the fair value of three of the Company s international wire and cable reporting units was determined to be less than the related carrying amount. The resulting impairment loss recognized upon adoption of SFAS No. 142 in the first quarter of 2002 was $33.0 million, pre-tax ($22.9 million after-tax) and was recognized as a cumulative effect of a change in accounting principle.

Subsequently, the Company completed its annual goodwill impairment test as of December 31, 2002, with no additional impairments. The Company will continue to test its goodwill annually as of December 31 unless events occur or circumstances change between annual tests that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The changes in the carrying amount of goodwill for the year ended December 31, 2002, and nine months ended September 30, 2003, are as follows:

(Unaudited; $ in millions)

	Specialty Chemicals Segment	Wire and Cable Segment	Total
Balance as of December 31, 2001	$ 88.5	54.6	143.1
Impairment losses upon adoption of SFAS No. 142		(33.0)	(33.0)
Foreign currency translation adjustments	(19.4)		(19.4)
Balance as of December 31, 2002	69.1	21.6	90.7
Foreign currency translation adjustments	8.3		8.3
Balance as of September 30, 2003	$ 77.4	21.6	99.0

CHANGES IN FINANCIAL CONDITION

Working Capital

During the first nine months of 2003, net working capital balances (excluding cash and cash equivalents and debt) increased $10.2 million. This increase resulted primarily from:

an $89.5 million increase in accounts receivable primarily due to higher sales (approximately $115 million), an increase in a partner s portion of cash calls (approximately $16 million), timing of collections (approximately $18 million), and higher net accounts receivable in the securitization program (approximately $4 million); partially offset by a net decrease in income taxes receivable primarily associated with refunds received (approximately $66 million);

a $22.9 million decrease in mill and leach stockpiles;

a $19.9 million decrease in inventories due to higher copper sales (approximately $34 million) and higher molybdenum sales (approximately $8 million); partially offset by increases in Columbian Chemicals inventory primarily due to a scheduled plant turn-

around in the 2003 fourth quarter and foreign currency impact (approximately $10 million), and an increase in Wire and Cable s inventory (approximately $12 million) primarily reflecting seasonally low inventories at year-end 2002;

a $13.1 million decrease in deferred income tax asset primarily due to the reclassification of amounts to long-term deferred income tax liability; and

a $19.2 million increase in accrued income taxes due to higher foreign taxes (approximately $40 million); partially offset by approximately $16 million of payments net of refunds.

Debt

At September 30, 2003, our total debt was $2,020.7 million, compared with $2,110.6 million at year-end 2002. Our ratio of debt to total capitalization was 41.0 percent and 42.3 percent at September 30, 2003, and December 31, 2002, respectively.

Debt reductions in the 2003 third quarter included the prepayment of $24 million of long-term debt at the Company s Cerro Verde copper mine in Peru. Cerro Verde now has no long-term debt.

In May 2003, the Company terminated $375 million of fixed-to-floating interest rate swaps associated with corporate debt maturing in 2005 and 2007. In the 2003 second quarter, we received cash proceeds of $35.9 million; $34.6 million was reflected as a deferred gain on the balance sheet and will be amortized over the remaining life of the underlying debt using the effective interest method.

As of September 30, 2003, the Company had no borrowings under its $1 billion revolving credit facility that is available, provided compliance with covenant requirements, until its scheduled maturity on May 10, 2005.

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. Under SFAS No. 4, all gains and losses from extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. This Statement eliminates SFAS No. 4 and, thus, the exception to applying Accounting Principles Board (APB) Opinion No. 30 to all gains and losses related to extinguishments of debt. As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB No. 30. Applying the provisions of APB No. 30 will distinguish transactions that are part of an entity s recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. As a result of this Statement being adopted by the Company on January 1, 2003, we have reclassified the 2002 third quarter extraordinary item for debt extinguishment costs to a recurring item.

Capital Expenditures and Investments

Capital expenditures and investments for the first nine months of 2003 were $52.9 million for PDMC, $27.6 million for PDI and $25.8 million for other Corporate-related activities. Capital expenditures and investments for the first nine months of 2002 were $65.3 million for PDMC, $19.1 million for PDI and $4.1 million for other Corporate-related activities. We expect capital expenditures and investments for the year 2003 to approximate $180 million, comprising approximately $100 million for PDMC, approximately $50 million for PDI, and approximately $30 million for Corporate and other. These capital expenditures and investments are expected to be funded primarily from operating cash flow and cash reserves.

Dividends

For the first nine months of 2003, Phelps Dodge has declared quarterly dividends of $5.0625 per mandatory convertible preferred share amounting to $10.1 million.

Other Matters

Based on discussions with the Staff of the Securities and Exchange Commission regarding the balance sheet classification of certain mining concessions, primarily mining concessions containing proven and probable ore reserves and mineralized material at the Company s South American mines, the Company has reclassified such mining concessions from Property, plant and equipment, net to Intangible assets. Additionally, previously reported historical amounts have been reclassified for comparative purposes. Refer to Note 3 for further discussion.

On July 11, 2003, Phelps Dodge amended its Form S-3 to combine the outstanding $150

million outstanding shelf registration into a new $750 million shelf registration. On July 15, 2003, this shelf registration statement was declared effective by the SEC.

Contractual Obligations

The following tables summarize Phelps Dodge s contractual obligations at September 30, 2003, and the effect such obligations are expected to have on its liquidity and cash flow in future periods for short-term debt, long-term debt (including capital lease obligations) and take-or-pay contracts. The following table, as of September 30, 2003, reflects an update of only the major changes to the similar table presented in the Company s Form 10-K at December 31, 2002:

Debt and Take-or-Pay Contracts as of September 30, 2003:

(Unaudited; $ in millions)

	Total	Less Than 1 Year	1-3 Years
Short-term debt	$ 48.5	48.5	
Long-term debt	1,972.2	124.4	520.8
Take-or-pay contracts	562.2	151.3	198.9

	4-5 Years	After 5 Years
Short-term debt	$	
Long-term debt	274.3	1,052.7
Take-or-pay contracts	122.3	89.7

Our take-or-pay contracts primarily include contracts for electricity ($261.8 million), contracts for petroleum-based feedstock for conversion into carbon black ($144.3 million), contracts for natural gas ($38.1 million), and transportation and port fee commitments ($49.0 million). Approximately 80 percent of our take-or-pay electricity obligations are through PD Energy Services, the legal entity used to manage power for PDMC at generally fixed-priced arrangements. PD Energy Services has the right and the ability to resell the electricity as circumstances warrant. Obligations for petroleum-based feedstock for conversion into carbon black are for specific quantities, and ultimately will be purchased based upon prevailing market prices at the time. These petroleum-based products may be re-sold to others if circumstances warrant. Obligations for natural gas provide for deliveries of specified volumes, at market-based prices, primarily to our carbon black operation in Brazil. Transportation obligations total $37.8 million primarily for exporting cathode produced at El Abra and Cerro Verde and copper in concentrate at Candelaria and for importing sulfuric acid to El Abra. Our carbon black facility in the United Kingdom has port fee commitments of $11.2 million.

Guarantees

In November 2002, FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires that upon issuance of certain guarantees, a guarantor must recognize a liability for the fair value of an obligation assumed under the guarantee. FIN 45 also requires significant new disclosures by guarantors, in both interim and annual financial statements, about obligations associated with guarantees issued. FIN 45 disclosure requirements were adopted for our year ended December 31, 2002; the initial recognition and measurement provisions were adopted on a prospective basis to guarantees issued or modified after December 31, 2002. There were no guarantees issued in the first nine months of 2003 that had a material impact on our financial statements.

Other Items that May Affect Liquidity

On October 16, 2003, a fire occurred at the Metcalf solution extraction (SX) plant, one of four SX plants at our Morenci mine. The fire severely damaged four of 10 mixer-settler tanks at the Metcalf SX plant. Six of the unit s tanks have resumed operation, and the mine has

increased flows through its other SX plants to meet production targets. We expect the fire s impact on the cost of production in the 2003 fourth quarter to be approximately $5 million to $10 million. The impact beyond the fourth quarter is expected to be minimal. Phelps Dodge has a global all-risk property insurance policy that provides for both property damage and business interruption; however, we do not expect any insurance recoveries as our per-occurrence and annual aggregate deductibles are higher than the projected Morenci claim.

New Mexico and Colorado s mined-land reclamation laws require financial assurance covering the future cost of reclamation. In contrast, Arizona s Mine Land Reclamation Act permits a company to satisfy financial assurance requirements by demonstrating it has financial strength to fund future reclamation costs identified in an approved reclamation plan. An investment-grade bond rating is one of the financial strength tests under the Arizona Act. Phelps Dodge s senior unsecured debt currently carries an investment-

grade rating albeit at the lowest level in that category. Additionally, the Company currently meets another financial strength test in Arizona that is not ratings dependent.

The cost of surety bonds (the traditional source of financial assurance) has increased significantly during the past two years. Also, many surety companies are now requiring an increased level of collateral supporting the bonds. If surety bonds are unavailable, the Company could be required to post other collateral or possibly cash or cash equivalents directly in support of financial assurance obligations.

Diesel Fuel and Natural Gas Price Protection Programs

We purchase significant quantities of diesel fuel and natural gas to operate our facilities as an input to the manufacturing process and as input for electricity generation and copper refining.

To reduce the Company s exposure to price increases in these energy products, the Company enters into energy price protection programs. Our diesel fuel and natural gas price protection programs consist of purchasing a combination of out-of-the-money (OTM) call option contracts and fixed-price swaps. The OTM call option contracts give the holder the right, but not the obligation, to purchase a specific commodity (diesel fuel or natural gas) at a pre-determined price, or strike price. OTM call options are options that have a strike price above the current market price for that commodity. Call options allow the Company to cap the commodity purchase cost at the strike price of the option while allowing the Company to participate in commodity price reductions below the strike price. Swaps allow us to establish a fixed commodity purchase price for delivery during a specific future period.

As of September 30, 2003, our domestic mining diesel fuel price protection program, which started in 2000, had outstanding diesel fuel option contracts in place to hedge approximately 22.2 million gallons of diesel fuel, or 54.3 percent of our consumption forecast through September 2004. As of September 30, 2002, our domestic diesel fuel price protection program had 12.8 million gallons of diesel fuel hedged. Gains and losses on these hedge transactions were substantially offset by a similar amount of gain or loss on the underlying forecast diesel fuel purchases.

As of September 30, 2003, our international mining diesel fuel price protection program had outstanding diesel fuel option contracts in place to hedge approximately 2.7 million gallons of diesel fuel, or 71.9 percent of our consumption forecast through December 2003. Gains and losses on these hedge transactions were substantially offset by a similar amount of gain or loss on the underlying forecast diesel fuel purchases.

As of September 30, 2003, our domestic natural gas price protection program, which started in 2001, had outstanding natural gas option contracts in place to hedge approximately 9.4 million decatherms of natural gas, or 74.2 percent of our consumption forecast through December 2004. As of September 30, 2002, our domestic natural gas price protection program had outstanding natural gas option contracts in place to hedge approximately 0.4 million decatherms of natural gas. Gains and losses on these hedge transactions were substantially offset by a similar amount of gain or loss on the underlying forecast natural gas purchases.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

There have been no material changes in the Company s market risk during the first nine months of 2003. For additional information on market risk, refer to pages 51 and 93 through 97 of our report on Form 10-K for the year ended December 31, 2002.

Item 4. Controls and Procedures

The Company maintains a system of disclosure controls and procedures that is designed to ensure information required to be disclosed by the Company is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, in a timely manner.

An evaluation of the effectiveness of this system of disclosure controls and procedures was performed under the supervision and with the participation of the Company s management, including the Company s chief executive officer and chief financial officer, as of the end of the period covered by this report. Based upon this evaluation, the Company s management, including the Company s chief executive officer and chief financial officer, concluded that the current system of controls and procedures is effective.

The Company maintains a system of internal control over financial reporting. There has been no change in the Company s internal control over financial reporting that occurred during the Company s third fiscal quarter that has materially

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affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

1. Reference is made to paragraph VII of Part II, Item 3, Legal Proceedings, of the Company s Form 10-K for the year ended December 31, 2002.

The Company s wholly owned subsidiary, Cyprus Amax Minerals Company (Cyprus), is the plaintiff in an action entitled Cyprus Amax Minerals Company v. Asarco Incorporated, 99 Civ. 11198 (LMM), which was filed on November 9, 1999, in the U.S. District Court for the Southern District of New York. On September 12, 2003, after the close of discovery and in accordance with an Order of the Court, Cyprus served Asarco with a First Amended Complaint that, among other things, incorporates additional factual allegations based on information learned during discovery and asserts new causes of action against Asarco. On September 26, 2003, Asarco served Cyprus with an answer to the First Amended Complaint that, among other things, omits all of the counterclaims previously asserted by Asarco against Cyprus and the Company in this action. On October 10, 2003, the parties entered into a Stipulation in which Asarco formally dismissed with prejudice all counterclaims previously asserted against Cyprus and the Company in this action, and on October 14, 2003, that Stipulation was filed with the Court.

2. Reference is made to paragraph X of Part II, Item 3, Legal Proceedings, of the Company s Form 10-K for the year ended December 31, 2002.

A Consent Decree was lodged in the U.S. District Court for the District of Arizona on September 16, 2003, to resolve allegations of Clean Water Act violations at the United Verde Mine. The Consent Decree specifies the terms for settlement of the Clean Water Act claims, under which the Company will undertake certain improvement and reclamation projects and pay a civil penalty of $220,142. The Consent Decree is subject to a public comment period and Court approval.

3. Reference is made to paragraph XIII of Part II, Item 3, Legal Proceedings, of the Company s Form 10-K for the year ended December 31, 2002.

Chino Mines Company (Chino), Phelps Dodge Tyrone, Inc. (Tyrone), and Cobre Mining Company (Cobre) are continuing their efforts to obtain approved closure permits from the New Mexico Environment Department (NMED) under the New Mexico Water Quality Act and closeout plans approved by the Mining and Minerals Division (MMD) of the Energy, Minerals and Natural Resources Department under the New Mexico Mining Act.

NMED issued Chino s closure permit on February 24, 2003. Since the closure permit was issued, Chino has engaged in discussions to resolve the amount and form of financial assurance required by NMED and MMD and the details of the closeout plan approval by MMD. To allow additional time to finalize applicable documentation and to hold a public hearing as required under the Mining Act, on September 24, 2003, MMD issued an order extending the deadline for Chino s closeout plan approval to November 24, 2003 (from September 24, 2003). The public hearing is expected to be held on November 13, 2003, and MMD is expected to take action on the closeout plan following consideration of public comments. Chino s closure permit has been appealed by third parties to the Water Quality Control Commission. Chino filed a motion to dismiss the appeal due to the failure to follow required procedures. If the appeal is not dismissed, a hearing is set for January 2004.

NMED issued Tyrone s closure permit on April 8, 2003, and Tyrone s deadline for closeout plan approval is April 8, 2004. As a result of agreements on financial assurance announced in May and October 2003, a framework for financial assurance for Tyrone has been established. This arrangement is subject to public comment. Tyrone and one other party have appealed certain portions of the closure permit and a hearing before the Water Quality Control Commission on those appeals is set for October 27, 2003.

Cobre has not yet received its NMED closure permit.

4. Reference is made to paragraph XIX of Part II, Item 3, Legal Proceedings, of the Company s Form 10-K for the year ended December 31, 2002.

The Company and Columbian Chemicals Company, together with several other companies, have been named as defendants in an action entitled Technical Industries, Inc. v. Cabot Corporation, et al., filed on January 30, 2003, in the U.S. District Court for the District of Massachusetts,

and approximately 13 other actions originally filed in the same and three other U.S. district courts, on behalf of a purported class of all individuals or entities who purchased carbon black directly from the defendants from January 30, 1999, to January 30, 2003. The complaints in these actions, which allege that the defendants fixed the price of carbon black and engaged in other unlawful activities in violation of the U.S. antitrust laws, seek treble damages in an unspecified amount and attorneys fees. The Judicial Panel on Multidistrict Litigation has ordered that all these actions be consolidated for pretrial proceedings in the District of Massachusetts under the caption In re Carbon black Antitrust Litigation. It is anticipated that plaintiffs will shortly file an amended, consolidated complaint in these actions. The Company and Columbian Chemicals Company, together with several other companies, have also been named in an action entitled Level Construction, Inc. v. Cabot Corporation, et al., filed in Superior Court of the state of California for the county of San Francisco (and seven other actions filed in the same and other California Superior Courts) on behalf of a purported class or indirect purchasers of carbon black in the state of California from as early as November 1998 to the present. The complaint alleges similar claims by indirect purchasers under California state law and seek treble damages in an unspecified amount and attorneys fees. A petition to coordinate these actions in San Francisco is pending. The Company believes that all these claims are without merit and intends to defend the lawsuits vigorously.

5. In November 2002, the U.S. Environmental Protection Agency (EPA) issued a unilateral administrative order (UAO) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) to the Company s wholly owned subsidiary, Western Nuclear, Inc., and two other companies, Kerr McGee Corporation and Fremont Lumber Company (collectively, the PRPs) requiring the companies to perform certain remedial design (RD) and remedial action (RA) work at the White King/Lucky Lass Uranium Mines site near Lakeview, Oregon. The PRPs do not believe the UAO was lawfully issued because EPA failed to recognize the joint responsibility of the U.S. government under applicable laws and to perform non-discretionary duties to ensure federal government responsibility for remediating the site prior to issuance of the UAO. The PRPs notified the EPA of their intent to sue and obtain, among other things, a judicial determination of the illegality of the UAO.

The PRPs voluntarily commenced and undertook the RD work (but not RA work) required by the UAO, and advised the EPA of their position and progress. From January 2003 through July 2003, the PRPs and EPA exchanged letters expressing their respective positions concerning the validity of the UAO. On July 31, 2003, the EPA rejected the PRPs position, notifying them that penalties are accruing for the alleged violations of the UAO and that the purported penalties through the end of July 2003 total approximately $5.2 million.

On September 19, 2003, the PRPs served a complaint on the Acting Administrator of the EPA, which seeks to have the federal district court of Oregon declare the UAO unlawful for failure to comply with the requirement under CERCLA to ensure federal government participation in remedying the site. *Fremont Lumber Company, et al. v. Horinko,* No. 03-CV-1073-AS (D. Ore). As of September 30, 2003, the EPA had not answered the complaint, nor had it instituted an action to enforce compliance with the UAO or to recover purported penalties allegedly accruing against the PRPs.

Item 6. Exhibits and Reports on Form 8-K

(a) Any exhibits required to be filed by the Company are listed in the Index to Exhibits.

(b) During the quarter ended September 30, 2003, the Company filed the following Current Reports on Form 8-K: (i) Current Report on Form 8-K bearing cover date of July 11, 2003, in which the Company reported under Item 5 that beginning with its Form 10-Q for the quarter ended June 30, 2003, the Company will reclassify mining concessions as intangible assets, and previously reported historical amounts will be reclassified for comparative purposes; (ii) Current Report on Form 8-K bearing cover date of July 28, 2003, in which the Company reported under Item 9 and 12 that it had issued a press release announcing financial results for the three- and six-months ended June 30, 2003; (iii) Current Report on Form 8-K bearing cover date of July 31, 2003, in which the Company reported under Item 5 that it had issued a press release announcing that one of its wholly owned subsidiaries has agreed to

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acquire the one-third general partnership interest in Chino Mines Company in New Mexico currently held by Heisei Minerals Corporation; and (iv) Current Report on Form 8-K bearing cover date of October 6, 2003, in which the Company reported under Item 5 that the Company and the state of New Mexico have amended the agreement to provide for financial assurance required as part of the closure and closeout plans related to Chino, Tyrone and Cobre.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Corporation has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHELPS DODGE CORPORATION
(Corporation or Registrant)

Date: October 29, 2003
By: /s/ Stanton K. Rideout

Stanton K. Rideout
Vice President and Controller
(Principal Accounting Officer)

Index to Exhibits

10.14	Additional form of Restricted Stock Letter (graduated vesting) under the Corporation s 2003 Stock Option and Restricted Stock Plan (the 2003 Plan), effective September 2, 2003 (SEC File No. 1-82).
	Note: Omitted from the filing pursuant to the Instruction to Item 601 (b) (10) are any actual agreement between the Corporation and certain officers under the 2003 Plan, which contain subsequently similar provisions to the above-described Exhibit.
11	Computation of per share earnings.
12	Computation of ratios of total debt to total capitalization.
15	Letter from PricewaterhouseCoopers LLP with respect to unaudited interim financial information.
31	Certifications of J. Steven Whisler, Chairman, President and Chief Executive Officer of the Company, and Ramiro G. Peru, Senior Vice President and Chief Financial Officer of the Company, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of J. Steven Whisler, Chairman, President and Chief Executive Officer of the Company, and Ramiro G. Peru, Senior Vice President and Chief Financial Officer of the Company, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.